

POWERSECURE INTERNATIONAL, INC.

Form 10-K

March 14, 2016

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-K**

(Mark One)

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

**For the fiscal year ended December 31, 2015**

**OR**

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

**For the transition period from                      to**

**Commission file number: 001-12014**

**POWERSECURE INTERNATIONAL, INC.**

**(Exact name of registrant as specified in its charter)**

**Delaware**  
**(State or other jurisdiction of**  
**incorporation or organization)**  
**1609 Heritage Commerce Court**

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

**Wake Forest, North Carolina 27587**  
**(Address of principal executive offices, including zip code)**

**Registrant's telephone number, including area code: (919) 556-3056**

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

| <b>Title of each class</b>                     | <b>Name of each exchange on which registered</b> |
|--|--|
| <b>Common Stock, par value \$.01 per share</b> | <b>The New York Stock Exchange</b>               |

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

**None**

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes  No

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 (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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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  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of June 30, 2015, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the shares of the registrant's Common Stock held by non-affiliates of the registrant was approximately \$317,725,635, based upon the last sale price of the Common Stock on such date as reported on the New York Stock Exchange.

As of March 11, 2016, 22,508,173 shares of the registrant's Common Stock were outstanding.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive Proxy Statement for the 2016 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission not later than 120 days after the end of the registrant's fiscal year ended December 31, 2015, are incorporated by reference in Part III of this Annual Report on Form 10-K to the extent stated herein.

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**POWERSECURE INTERNATIONAL, INC.**

**Form 10-K**

**For the Fiscal Year Ended December 31, 2015**

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**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This Annual Report on Form 10-K and the documents incorporated into this report by reference contain, and we may from time to time make, forward-looking statements within the meaning of and made under the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. From time to time in the future, we may make additional forward-looking statements in presentations, at conferences, in press releases, in other reports and filings and otherwise. Forward-looking statements are all statements other than statements of historical fact, including statements that refer to plans, intentions, objectives, goals, targets, strategies, hopes, beliefs, projections, prospects, expectations or other characterizations of future events or performance, and assumptions underlying the foregoing. The words may, could, should, would, will, project, intend, continue, believe, anticipate, estimate, forecast, expect, plan, potential, opportunity, possible, target and future, variations of such words, and other comparable terminology and similar expressions and references to future periods are often, but not always, used to identify forward-looking statements. Examples of forward-looking statements include, but are not limited to, statements about the following:

certain risks and uncertainties associated with the proposed merger with The Southern Company, including, without limitation:

the possibility that the proposed merger does not close due to the failure to satisfy the closing conditions, including, but not limited to, a failure of our shareholders to approve the Merger Agreement or a failure to obtain the required regulatory approval;

delays caused by required regulatory approval, which may delay the proposed merger or cause the companies to abandon the transaction;

disruption from the proposed merger making it more difficult to maintain our business and operational relationships as well as maintaining our relationships with employees, suppliers or customers, and the risk that unexpected costs will be incurred during this process; and

the diversion of management time on merger-related issues;

prospects, including our future business, revenues, expenses, net income, earnings per share, margins, profitability, cash flow, cash position, liquidity, financial condition and results of operations, backlog of orders and revenue, our expectations for the growth of our business, our goals for future revenues and earnings, and our expectations about realizing the revenues in our backlog and in our sales pipeline;

the effects on our business, financial condition and results of operations of current and future economic, business, market and regulatory conditions, including the current and anticipated economic and market conditions and the effects on our customers, their capital budgets and spending and their ability to finance purchases of our products, services, technologies and systems;

the effects of fluctuations in sales on our business, revenues, expenses, net income, earnings per share, margins, profitability, cash flow, capital expenditures, liquidity, financial condition and results of operations;

our products, services, technologies and systems, including their quality and performance in absolute terms and as compared to competitive alternatives, their benefits to our customers and their ability to meet our customers' requirements, and our ability to successfully develop and market new products, services, technologies and systems;

our markets, including our market position and our market share;

our ability to successfully develop, operate, grow, expand and diversify our business and operations;

our business plans, strategies, goals and objectives, and our ability to successfully achieve them;

fluctuations in the gross margins of our businesses;

the impact of large projects or customer awards on our business and financial results, such as the utility-scale solar projects;

the effects on our business operations, financial results and prospects of business acquisitions, combinations, sales, alliances, ventures and other similar business transactions and relationships;

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the sufficiency of our capital resources and sources of funding, including our cash and cash equivalents, funds generated from operations, the availability of borrowings under our credit and financing arrangements, the availability of bonding and other capital resources, to meet our future working capital, capital expenditure, lease and debt service and business growth needs;

the value of our assets and businesses, including the revenues, profits and cash flow they are capable of delivering in the future;

industry trends and customer preferences and the demand for our products, services, technologies and systems;

the nature and intensity of our competition, and our ability to successfully compete in our markets;

fluctuations in our effective tax rate; and

the effects on and potential exposure to our business, financial condition and results of operations from litigation, warranty claims and other claims and proceedings that arise from time to time, including the pending securities class action and those that could arise as a result of the proposed merger with Southern Company.

Any forward-looking statements we make are based on our current plans, intentions, objectives, goals, targets, strategies, hopes, beliefs, projections and expectations, as well as assumptions made by and information currently available to management. Forward-looking statements are not guarantees of future performance or events, but are subject to and qualified by substantial risks, uncertainties and other factors, which are difficult to predict and are often beyond our control. Forward-looking statements will be affected by assumptions and expectations we might make that do not materialize or that prove to be incorrect and by known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those expressed, anticipated or implied by such forward-looking statements. These risks, uncertainties and other factors include, but are not limited to, those described in Item 1A. Risk Factors as well as other risks, uncertainties and factors discussed elsewhere in this report, in documents that we include as exhibits to or incorporate by reference in this report, and in other reports and documents we from time to time file with or furnish to the Securities and Exchange Commission. In light of these risks and uncertainties, you are cautioned not to place undue reliance on any forward-looking statements that we make.

Any forward-looking statements contained in this report speak only as of the date of this report, and any other forward-looking statements we make from time to time in the future speak only as of the date they are made. We undertake no duty or obligation to update or revise any forward-looking statement or to publicly disclose any update or revision for any reason, whether as a result of changes in our expectations or the underlying assumptions, the receipt of new information, the occurrence of future or unanticipated events, circumstances or conditions or otherwise.

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**PART I**

**Item 1. Business  
Company Overview**

PowerSecure International, Inc., headquartered in Wake Forest, North Carolina, is a leading provider of products and services to electric utilities and to their large commercial, institutional and industrial customers.

We provide our products and services through four reporting segments: Distributed Generation, Solar Energy, Utility Infrastructure, and Energy Efficiency. These four segments constitute our major product and service offerings, each of which is focused on serving the needs of utilities and their large commercial, institutional and industrial customers to help them generate, deliver, and utilize electricity more reliably and efficiently.

Our strategy is focused on growing the business units within these four segments, which require unique knowledge and skills that utilize our core competencies, because they address large market opportunities due to their strong customer value propositions. The segments share many common or complementary utility relationships and customer types, sales and administrative resources, and facilities. However, we distinguish our operations among these segments due to their unique products and services, differing cost structures, market needs they are addressing, and the distinct technical disciplines and specific capabilities required for us to deliver their products and services, including personnel, technology, engineering, and intellectual capital.

We currently operate primarily out of our Wake Forest, North Carolina headquarters office. Our operations also include several satellite offices and manufacturing facilities, the largest of which are in the Raleigh-Durham and Greensboro, North Carolina, Atlanta, Georgia, Bethlehem, Pennsylvania, and Stamford, Connecticut areas. The locations of our sales organization and field employees for our operations are generally in close proximity to the utilities and commercial, industrial, and institutional customers they serve. Our four segments are operated through our principal operating wholly-owned subsidiary, PowerSecure, Inc.

On February 24, 2016, we entered into an Agreement and Plan of Merger, which we refer to as the Merger Agreement, with The Southern Company, Inc., which we refer to as Southern Company, which is described below in this item under Recent Developments and in Note 2 to our consolidated financial statements.

We were incorporated in Delaware on April 5, 1991. On August 22, 2007, we changed our name to PowerSecure International, Inc. Our principal executive offices are located at 1609 Heritage Commerce Court, Wake Forest, North Carolina 27587, and our telephone number at those offices is (919) 556-3056.

Since August 28, 2013, our common stock has been listed and traded on the New York Stock Exchange under the symbol POWR.

In this report, references to PowerSecure, our company, we, us and our mean PowerSecure International, Inc. together with its subsidiaries, and references to PowerSecure, Inc. mean our wholly-owned subsidiary PowerSecure, Inc. along with its subsidiaries, unless we state otherwise or the context indicates otherwise.

PowerSecure, Interactive Distributed Generation, IDG, NexGear, PowerBlock, PowerControl, PowerFab, UtilityServices, UtilityEngineering, PowerServices, PowerSecure Lighting, EfficientLights, Solais, EnergyLite, Encari and our other registered or common law trademarks, service marks and trade names appearing in this report are our



property. Any other trademarks, service marks or trade names appearing in this report are the property of their respective owners.

## **Recent Developments**

### ***Agreement and Plan of Merger***

On February 24, 2016, we entered into the Merger Agreement with Southern Company and a wholly-owned subsidiary of Southern Company, which we refer to as the Merger Sub, providing for the merger of the Merger Sub with and into PowerSecure, with PowerSecure continuing as the surviving corporation in the Merger and becoming a wholly-owned subsidiary of Southern upon consummation of the Merger. At the effective time of the merger, subject to receipt of required shareholder and regulatory approvals, and meeting specified customary closing

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conditions, each share of our common stock will be converted automatically into the right to receive into the right to receive \$18.75 in cash, without interest, less any applicable withholding taxes. In the Merger Agreement, we agreed to covenants affecting the conduct of our business between the date of the Merger Agreement and the effective date of the Acquisition. For additional information relating to this merger, see Cautionary Note Regarding Forward-Looking Statements , Item 1A. Risk Factors Risks Relating to the Merger , and Note 2 to our consolidated financial statements in this report.

Our Board of Directors has unanimously (i) adopted the Merger Agreement and determined that the Merger and the other transactions contemplated by the Merger Agreement are advisable and in the best interests of our stockholders, (ii) approved the execution, delivery and performance of the Merger Agreement by PowerSecure and the consummation of the Merger and the other transactions contemplated by the Merger Agreement, and (iii) resolved to recommend that our stockholders approve the Merger Agreement and the Merger and other transactions contemplated by the Merger Agreement.

At the effective time of the Merger, each share of our common stock issued and outstanding immediately prior to the effective time, other than certain excluded shares, will be converted automatically into the right to receive \$18.75 in cash, without interest, which we refer to as the Merger Consideration.

The Merger Agreement also provides that, at the effective time, all of our outstanding stock options will be deemed to be fully vested and converted into the right to receive a cash payment equal to the excess of the Merger Consideration over the exercise prices of such stock options. All of our outstanding restricted shares and restricted stock units will be deemed to be fully vested and converted into the right to receive the Merger Consideration, except for certain unvested restricted shares held by our Chief Executive Officer, which will be converted into a stock award relating to shares of Southern as further described below. All of our performance share units payable in shares of our common stock will be deemed vested at the target level of achievement and converted into the right to receive the Merger Consideration.

Consummation of the Merger is subject to various closing conditions, including, among others (i) the approval of the Merger Agreement by the affirmative vote of the holders of a majority of all outstanding shares of our common stock, (ii) the receipt of all regulatory approvals required to consummate the Merger, including expiration or termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, (iii) the absence of any law or injunction prohibiting the consummation of the Merger, and (iv) other customary closing conditions, including (a) the accuracy of each party's representations and warranties (subject to customary materiality qualifiers), (b) each party's performance in all material respects with its obligations under the Merger Agreement, and (c) no material adverse effect (as defined in the Merger Agreement) on us having occurred. The Merger is not subject to any financing condition.

The Merger Agreement contains customary representations, warranties and covenants by us and Southern, including, among others, covenants by us not to solicit proposals relating to alternative business combinations or, subject to certain exceptions, enter into discussions concerning or provide information in connection with alternative business combination proposals or withdraw or adversely modify the recommendation of our Board in favor of the stockholder approval. In addition, the Merger Agreement contains (i) agreements by us to conduct our business in the ordinary course until the Merger is consummated, to not engage in certain kinds of transactions, to convene and hold a meeting of our stockholders for the purpose of obtaining stockholder approval of the Merger and the Merger Agreement and (ii) agreements by each of the parties to use their reasonable best efforts to obtain all required regulatory approvals.

The Merger Agreement contains certain termination rights, including the right by us to terminate the Merger Agreement if our Board has changed its recommendation in favor of the Merger in connection with a Superior Proposal or Intervening Event as such terms are defined in the Merger Agreement. The Merger Agreement also provides that, upon termination of the Merger Agreement in specified circumstances, we will be required to pay Southern a termination fee of \$12,000,000. In addition, subject to certain exceptions and limitations, either party may terminate the Merger Agreement if the Merger is not consummated by November 30, 2016.

On February 23, 2016, the lenders under our credit facility provided a waiver of any event of default arising from the execution of the Merger Agreement (but not the consummation of the Merger) under credit agreement with our lenders.

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### ***Other Recent Developments***

On February 8, 2016, we entered into a five year management services agreement, which we refer to as the MSA, with Bahamas Power and Light Company, which we refer to as BPL, a wholly owned subsidiary of Bahamas Electricity Corporation, the government owned electric utility for The Bahamas (excluding Grand Bahama), to assist BPL to conduct its operations as the electric utility for The Bahamas, manage the Bahamas electric infrastructure, and enhance its overall electric generation system and supply. The MSA includes a business plan which outlines cost-reduction and reliability targets along with renewable energy and customer service initiatives.

On December 2, 2015, we announced that we acquired the energy services business of ESCO Energy Services Company, a Massachusetts corporation, a private company based in Lenox, Massachusetts that provides lighting retrofit solutions which deliver energy savings for large energy services companies and commercial and industrial, institutional, utility and municipal customers across the United States, although predominately in the Northeast. The acquired business provides a broad range of turn-key energy efficiency services including energy audits, engineering and design, materials procurement, project management, implementation and verification. We paid approximately \$1.8 million in total consideration, including cash and promissory notes. In addition, we will make earn-out payments through 2018 for contracted sales by the acquired business that exceed certain contracted sales targets intended to reflect meaningful growth.

On November 3, 2015, we entered into an amendment to the amended and restated credit agreement that provides for our credit facility, which consists of both a revolving loan and certain term debt. The amendment increased the size of the revolving loan to \$40 million from \$20 million, the amount of the availability of which continues to be subject to our compliance with our financial covenants as amended, and also extended the maturity date of the entire credit facility to June 30, 2020 from November 12, 2016, including the maturity of the revolving loan and the \$2.6 million original principal amount term loan. In addition, the amendment to the credit agreement added an accordion provision permitting us to request an increase in the revolving loan by up to an additional \$20 million, subject to lender participation, and amended one of our financial covenants, reducing the maximum debt to capitalization ratio at the end of any fiscal quarter to 0.25 from 0.30.

### **The Industry and our Business Areas of Focus**

The electricity industry is comprised of investor-owned utilities, or IOUs, municipal utilities and co-operative electric utilities, along with independent power producers and independent transmission companies. These utilities and other companies are primarily responsible for the generation, transmission and distribution of electricity in the United States. The electric transmission and distribution infrastructure is the critical network that connects power generation by these utilities and other producers to end users, including commercial and industrial customers. Electric transmission involves the transmission of electricity through power lines and substations, including high voltage lines transmitting electricity over long distances, and lower voltage lines that connect high voltage transmission infrastructure to local distribution networks. Electric distribution involves the local distribution network, including related substations that step down voltages to distribution levels, which provide electricity to end users over shorter distances.

The U.S. electricity industry is large and has expanded over the last two decades. According to the U.S. Energy Information Administration, referred to as the EIA, the U.S. electricity market totaled approximately \$388 billion in revenue in 2015 with approximately 3,725 billion kilowatt hours purchased by the ultimate customers. Throughout this period, electric utilities have been challenged by an evolving and uncertain regulatory process, the increased burden of environmental constraints, planned reductions in coal plant capacity, the increase in demand for renewable sources of energy, the significant reduction in natural gas prices, and long lead times to complete major capital

investments. As a result, utilities are challenged to efficiently meet demand by traditional means, both in the areas of large scale power production and in power transmission and distribution. This, in addition to ongoing disruptions from severe weather events, has also challenged reliability and increased the strain on the electric power grid.

This strain is particularly pronounced during peak power periods, when the demand for electricity is at its highest. The rising demand for energy, growing complexity of energy resources and the electric grid, and increasing concerns about the environment, have combined to cause virtually every organization, public and private, including utilities and their end customers, to be focused on energy efficiency, reliability and productivity. According to the EIA, approximately 60% of U.S. electricity demand is driven by commercial and industrial electricity usage, which is the focus of our business.

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These factors have resulted in a significant need in the marketplace for our products and services. Our strategy is to serve utilities and their large commercial, institutional and industrial customers by providing products and services in these areas that have strong value propositions. Our business leaders and their teams have strong utility and customer relationships and a deep understanding of the markets we serve, and they are incentivized to grow these businesses profitably and on a sustained basis. We encourage our business leaders to embrace a philosophy of service and disciplined innovation as a means to anticipate and fill customer needs. Our entrepreneurial culture is an asset that is fundamental to our growth and success. We are continually listening to our utility partners, and to our existing and potential commercial, industrial and institutional customers, to identify energy-related products and services we can deliver to add value to their businesses. We seek to fill these customer needs in several ways, including by:

offering our existing portfolio of products and services that have demonstrated their value in similar or complementary situations, usually customizing them for each particular application;

offering new energy-related technologies and capabilities that are emerging or being developed by third parties, which we can either incorporate into our existing product lines or bring to market as new product offerings; and

developing new technologies and capabilities internally to serve existing and potential customers when options do not exist in the marketplace that meet our quality, effectiveness, cost and financial return standards.

Over the near and mid-term, our strategic focus is to continue to grow our businesses and to expand and enhance our product and service offerings in all of our segments.

## **Our Growth Strategy**

From 2000 through 2015, our revenues from our PowerSecure business grew at a compound annual growth rate of 31.8%. We believe that there is a substantial opportunity for continued growth in the future in our business operations because we are delivering differentiated products and services to a variety of underpenetrated and growing markets. Our growth strategy is to expand our solutions across existing and new utility partners and customers by focusing on the following:

*Leveraging our Utility and Customer Relationships to Cross-Sell Our Services.* Our business is focused on serving utilities and their large commercial and industrial customers, and this enables us to bring multiple solutions to individual utilities and customers. We believe our focus on customer intimacy provides us with an ability to identify opportunities for growth across our product and service offerings.

*Being a Strong Partner to Utilities to Assist them in their Efforts and Investment to Maintain and Upgrade the U.S. Electricity Grid.* According to a forecast made in October 2015 by the Edison Electric Institute, investor-owned electric utilities were planning to invest approximately \$85 billion on electric transmission infrastructure between 2015 and 2018. In December 2014, the Brattle Group projected that the total U.S. transmission investment over the next decade will be \$120-\$160 billion. We believe that our talented people,

strong set of products and services, excellent track record of quality and reliability, and trusting utility relationships position us to translate this expected investment into growth for our business.

*Delivering Innovation to the Marketplace.* Across our business segments, we have continued to focus on bringing innovative products and solutions to our customers. For example, we have seen significant growth in the percentage of our Distributed Generation solutions which incorporated our proprietary PowerBlock solution. We also added new solutions and capabilities targeted at data center customers, new safety and training resources and cybersecurity consulting expertise to our Utility Infrastructure solutions, and introduced new LED lighting products and Energy Efficiency Services solutions for large energy services companies, referred to as ESCOs, as well as utility, commercial and retail customers. We believe our engineering expertise, and our focus on customer relationships, provide us with the opportunity to continue our track record of innovation, which will contribute to our potential future growth.

*Acquiring Key Technologies and Personnel that Add Value.* While the majority of our historic growth has been organic, we also have established a track record of selectively and successfully identifying, acquiring and integrating key technologies and expertise that are consistent with our core business. We look for acquisitions that can add value for our customers and are expected to be accretive to our financial performance.

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### **Distributed Generation**

#### *Overview*

Our Distributed Generation solutions involve manufacturing, installing and operating electric generation equipment on site at a facility where the power is used, including commercial, institutional and industrial operations. Our systems provide a highly dependable backup power supply during power outages, and provide a more efficient and environmentally friendly source of power during high cost periods of peak power demand. These two sources of value benefit both utilities and their large customers. In addition, our Distributed Generation solutions include full turn-key electrical infrastructure design, engineering, construction, implementation and commissioning services to data center owners.

Our Distributed Generation systems contain our proprietary electronic controls and PowerControl software, which enable our systems to be monitored around the clock by our monitoring center, protecting our customers' operations from power outages and related costs. Through our monitoring center, we also forecast utilities' peak demand periods and we electronically deploy our systems during these periods to power customers' operations instead of drawing electricity from the utility grid. Our monitoring center ensures that our Distributed Generation systems deliver power at optimal times and durations for maximum efficiency. This efficient peak demand power capacity benefits both the utility and the customer whose facility is being supported by the system. Our systems also enable utilities to delay new infrastructure investments for transmitting and distributing power, and minimize energy losses associated with moving electricity over long distances.

#### *Market*

The market for our Distributed Generation systems is driven by the multiple sources of value they provide. Both utilities and their large customers receive financial and operational benefits from our systems.

For utilities, our systems help them to:

manage constraints in their electric grid systems, particularly during times of peak demand;

minimize energy losses associated with moving electricity over long distances;

manage challenges with respect to bottlenecks that can occur in electric transmission and distribution systems;

perform localized system maintenance without interrupting large users of electricity in that particular area;

operate with demand levels that are less volatile, enhancing the efficiency and reliability of their overall system and invested capital; and



reduce carbon emissions compared to traditional sources of spinning power reserves.

For commercial, institutional and industrial customers, our systems help them by:

providing a highly dependable source of backup power to protect their operations from financial losses and other negative consequences of power outages, including utilizing our systems both for preventative measures, such as when a storm is approaching, and for emergency purposes, when utility power is interrupted; and

providing electricity cost savings by utilizing our systems to provide power during periods of high cost peak electricity demand, instead of drawing power from the utility grid, which is referred to as peak shaving.

Because utilities realize operational and financial benefits when customers reduce the amount of power they draw from the electric grid during peak power periods, they often provide incentives in their pricing, or tariff, structures to encourage this activity. These incentives are called demand response benefits and programs. Our systems are engineered to carry the full load required to operate the facilities they support. During peak shaving activities at a customer's facility, our NexGear parallel switchgear technology enables power to be transferred,

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without any interruption, between (1) the grid, (2) our Distributed Generation system, and (3) the customer's facility. Therefore, customers who use our Distributed Generation systems can realize the financial benefits of utility demand response programs without the consequences, costs and inconveniences of having to interrupt or reduce the load of their operations.

### ***Products and Services***

We provide turn-key Distributed Generation systems and programs for our customers. The typical Distributed Generation system is installed and maintained at a utility's end customer's location and is designed to supply power only to that one particular site. The size of the Distributed Generation systems that we install most commonly ranges from 500 kW to 15,000 kW, although there is no practical limit to the size of the load we can serve, and we have designed and installed significantly larger systems. Our proprietary Distributed Generation system, which is named PowerBlock, combines standardized size building blocks. These standard building block units are combined, using our switchgear and control technology, to create systems for facilities with higher electric loads. We manufacture our PowerBlocks at our facility near Greensboro, North Carolina. We also utilize generators sourced from major global generator manufacturers as the generators incorporated into our systems.

The primary elements of our turn-key Distributed Generation systems include:

designing and engineering the Distributed Generation system;

obtaining the required regulatory approvals and permits;

establishing the electricity inter-connect between the utility and the customer to take advantage of electricity rate savings;

manufacturing and packaging the generators for our proprietary PowerBlock systems using engines sourced from a major global engine manufacturer, and in other cases integrating a turn-key generator sourced from one of several major global generator manufacturers, depending on the application;

for solar photovoltaic systems, engineering, procuring and constructing the solar energy system, including sourcing solar panels from high-quality competitively priced panel manufacturers;

engineering and integrating the system components and controls;

designing, engineering, constructing and installing the switchgear and process controls; and

providing continuous 24 x 7 PowerControl monitoring and servicing of the system.

One key component of a traditional, non-solar distributed generation system is its source of power generation, the generator, which is typically comprised of an alternator driven by a power source. While several types of distributed generation technologies are available, we currently utilize an internal combustion engine to power our Distributed Generation systems to provide maximum reliability as well as quick and efficient startup and shutdown. Typically these engines are fueled by diesel or natural gas, and they can also utilize methane or biodiesel as fuel. The types of generators, engines and alternators utilized in our systems are widely used and provide a highly dependable, cost-effective Distributed Generation technology, meaning that they are able to generate the power that is required with very short start-up times, with good efficiency at a reasonable cost. However, new power producing technologies are emerging, and we are continually evaluating the utilization of new technologies and their ability to be a commercially viable and reliable power source.

### ***Monitoring Center and NexGear Technology***

We build technology into our Distributed Generation systems. This technology is embedded into the design and manufacture of our proprietary switchgear and hardware and software controls systems, which are marketed under the name NexGear. Our NexGear technology controls the generator and the transfer of power, quickly shifting power between a customer's primary power source and our Distributed Generation system. We consider our control technology and switchgear designs to be a source of competitive advantage for us due to their quality and their ability to provide power from the generator in parallel with, meaning at the same time as, the customer's primary power source without disrupting the flow of electricity. This capability allows the customer to quickly substitute the power generated at the customer's site with the power supplied by the utility power plant during times of peak demand without business interruption. Our system controls are built to enable remote monitoring and control functions, allowing us to operate the Distributed Generation system 24 x 7 from our PowerControl monitoring center.

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We believe our combination of unique control capabilities is unmatched in the industry. Through our PowerControl monitoring center, we lead the industry in our ability to monitor the electric power grid, proactively predict peak power periods and electronically dispatch our customers' generation at the right time, and for the right duration, with the goal of optimizing our customers' energy efficiency. Peak power periods vary by geography, time of day, utility infrastructure, utility customer mix and weather. Using our predictive capabilities, we coordinate the operation of our customers' Distributed Generation systems during times of peak demand so that our customers can benefit from energy savings and beneficial electricity rates that are available from managing energy use during these periods of high electricity demand. Our ability to enable our customers to benefit from these savings is enhanced by our expertise in understanding complicated utility rate structures.

Our PowerControl monitoring center is an integral part of our Distributed Generation solution. We monitor and maintain our Distributed Generation systems for our customers around the clock, with the goal of ensuring reliability and removing many of the burdens associated with ownership. Distributed Generation systems must be operated periodically so that they function properly when called upon to supply power. We remotely start and operate the systems using sophisticated communication devices and we continuously monitor their performance. In the event of a mechanical problem, technicians are immediately dispatched. Additionally, we provide management services, including fuel management services, preventive and emergency maintenance services and monitoring and dispatching services.

### ***Energy Storage***

We have developed, and since 2015 have been offering, sophisticated energy storage solutions, which support a microgrid and enable a customer to integrate solar and other generation sources with our control solutions. Our energy storage solutions, including battery storage solutions, enable the enhanced utilization of renewable energy sources, designed to improve the reliability and quality of alternative energy sources such as solar or wind power. Our typical energy storage solution is intended to help leverage a customer's renewable energy investment in a number of ways, such as by providing output firming, which stabilizes power against variances in meteorological conditions. Another advantage of our solutions is power smoothing, which improves power quality and eliminates harmonics, rapid voltage swings and frequency deviations. Our energy storage solutions can be combined with our Distributed Generation or Solar Energy systems to provide the benefits of those solutions, including peak shifting and fast and reliable standby power. In addition, our energy storage solutions are scalable, flexible and technology-neutral to meet the needs of our customers.

### ***Business Models***

Our Distributed Generation systems are sold to customers utilizing two basic economic models, each of which can vary depending on the specific customer and application. In our original business model, which is still our predominant model, we sell the Distributed Generation system to the customer. We refer to this as the project-based or customer-owned model. For Distributed Generation systems that we sell under the project-based model, the customer acquires ownership of the Distributed Generation assets upon our completion of the project. Our revenues and profits from the sale of systems under this model are recognized over the period during which the system is installed. In the project-based model, after the system is installed we also usually receive revenue on the form of a monthly fee, in an amount modest relative to the initial purchase price of the system, to monitor the system for backup power and peak shaving purposes as well as to maintain the system.

We have structured our second business model to generate ongoing, long-term recurring revenues for us. We refer to this as our recurring revenue, PowerSecure-owned or company-owned model. For Distributed Generation systems that we deploy under this model, we retain ownership of the Distributed Generation system after it is installed at the

customer's site. Because of this, we invest the capital required to design and build the system, and our revenues are derived from regular fees paid over the life of the recurring revenue contract by the utility or the customer, or both, for access to the system for standby power and peak shaving. The life of these recurring revenue contracts is typically from five to 15 years, and these contracts can be renewed or extended. The fees that generate our revenues in the recurring revenue model are generally paid to us by the customer on a monthly basis and are set at a level intended to provide us with attractive returns on the capital we invest in installing and maintaining the Distributed Generation system. Our fees for recurring revenue contracts are generally structured as shared savings arrangements with the customer, although they can also be structured with fixed monthly payments. For our shared savings recurring revenue contracts, a portion or all of our fees are earned out of the pool of peak shaving savings the system creates for the customer.

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We believe that the customer value proposition is strong in both economic models. In the customer-owned model, where the customer pays for and obtains ownership of the system, the customer's typical targeted returns on investment range from 15% to 25%, with a payback targeted at three to five years. These paybacks to the customer result from a combination of the benefits of peak shaving, which creates lower total electricity costs, and the value that the backup power provides in avoiding losses from business interruptions due to power outages. Additionally, utilities gain the benefits of smoother electricity demand curves and lower peaks, as the result of having highly reliable standby power supporting customers in their utility systems, power distribution and transmission efficiencies, and of avoiding major capital outlays that would have been required to build centralized power plants and related infrastructure for peaking needs. In our PowerSecure-owned model, where we pay for, install and maintain ownership of the system in exchange for the customer paying us smaller fees over a period of years, utilities and their customers receive access to our system without making a large up-front investment of capital. Under the PowerSecure-owned model, contracts can be structured a variety of ways, including between us and the utility, between us and the customer, or among us, the customer and the utility.

In 2015, 87.7% of our Distributed Generation systems revenues consisted of customer-owned sales, and the remaining 12.3% of our Distributed Generation systems revenues were derived from recurring revenue sales. Sales of customer-owned systems generate revenues and profits that are recorded on our financial statements over the course of the project implementation, which is generally a period ranging from three to 18 months depending on the size of the project. Sales of PowerSecure-owned projects are recorded over a longer time frame continuing well after the project is implemented, typically ranging from five to 15 years depending on the life of the underlying contract. Changes both in the absolute amount of sales under these two systems and in the proportionate ratio between the two sales models significantly impact our revenues and profits and cause them to fluctuate from period to period. Changes in sales under our customer-owned models result in significant changes in our near-term revenues and profits. By contrast, sales under the PowerSecure-owned system model generate revenues and profits that are more consistent from period-to-period, have higher gross margins and generate revenues and profits over a longer time period, although smaller in dollar amount in any particular period because they are recognized over the life of the contract. Our PowerSecure-owned recurring revenue model requires us to invest our own capital in the project without any return on capital until after the project is completed, commissioned and successfully operating.

Our Energy Storage solutions are sold to customers under the project-based model, in which the customer acquires ownership of the Energy Storage system upon our completion of the project. Our revenues and profits from the sale of systems under this model are recognized over the period during which the system is installed.

**Solar Energy*****Overview***

Our Solar Energy segment, which is operated primarily by our PowerSecure Solar subsidiary. Our Solar Energy systems use photovoltaic, or PV, solar panels (which we do not manufacture) to provide utilities and their customers with environmentally friendly power to augment their core power requirements. Our PowerSecure Solar team provides us with the ability to deliver Solar Energy systems integrated with our Distributed Generation and Energy Storage solutions platform. These Solar Energy systems are sold under the project-based, customer-owned model.

Our turn-key solar energy system capabilities include the design, engineering, project development, sourcing and procurement, installation and project management of these solutions. Our solar energy systems primarily involve photovoltaic, or PV, panels generating power without moving parts or fuel. We rely heavily on our engineering expertise to design systems that optimize producing the maximum energy at the lowest capital cost. A successful solar power system requires the proper selection and configuration of panels, mounting equipment and inverters, which our

engineering expertise and attention can provide. Our solar team has experience with a wide range of PV technologies, so we are supplier and technology neutral. Our technical expertise also includes permitting, interconnecting, commissioning, maintaining and monitoring the solar power system.

***Market***

In addition, the growing desire for utilities and their customers to incorporate renewable energy sources into their portfolios has driven a demand for distributed solar energy systems. We provide turn-key solar photovoltaic systems either as a stand-alone solution or in conjunction with our traditional Distributed Generation systems and/or our proprietary Energy Storage Solutions. Our capabilities include the ability to provide turn-key systems, including engineering, procurement and construction, as well as provide on-going maintenance and monitoring services.

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Solar energy is a growing form of renewable energy with numerous economic as well as environmental benefits that make it an attractive complement to, or substitute for, traditional forms of electricity generation. In recent years, the price of PV solar systems, and accordingly the price of producing electricity from PV solar, has dropped to levels in some markets and applications that are close to or even below the retail price of electricity. Moreover, there are a variety of financial and other economic incentives for solar power, offered by various levels of governmental authorities and through tax incentives and private incentives. Many of these support programs expire, phase out over time, require renewal by the applicable authority, or may be modified without notice. For example, the 30% investment tax credit under federal tax regulations, which were scheduled to expire at the end of 2016, have been extended to the end of 2019, after which time it declines in stages to a permanent 10% rate credit starting in 2022. The rapid price decline that solar systems have experienced in recent years has created opportunities to develop solar systems in certain markets even with limited or no financial incentives.

Solar energy systems offer a variety of benefits that help drive demand. Solar systems require no fuel, which provides a valuable benefit to owners of solar systems relative to traditional electricity generation assets. Once installed, solar systems can function for dozens of years with less maintenance and oversight than electricity generation. In addition, solar energy systems offer environmental benefits, including that they do not generate any greenhouse or other emissions and use little or no water.

Solar energy markets are continuing to develop, aided by the factors discussed above as well as by declining selling prices, which make solar power more affordable to new markets.

### ***Business Model***

Our Solar Energy systems are typically sold to customers on a project-based model on a basis similar to that Distributed Generation model. We are engaged to design, source, procure, build and install Solar Energy systems and projects, for utilities and their customers or for developers and their customers. We are generally paid a fixed contractual price for these projects, plus any modifications or scope additions. We recognize revenues from these projects on an output method using percentage-of-completion basis.

### ***Significant Projects***

Our Solar Energy distributed generation business significantly expanded under awards from Georgia Power Company, one of the largest investor-owned utilities in the U.S., to provide utility-scale solar installations for the benefit of Georgia Power customers. We currently expect those projects to generate a total of approximately \$120 million in revenues during 2015 and 2016, including revenues from such projects that we recognized in 2015. The first two projects were awarded in 2014 under Engineering, Procurement and Construction Agreements, which we refer to as EPC Contracts, between the utility and us, for the benefit of Georgia Power customers. In July 2015, we entered into an EPC Contract with Georgia Power for a third solar installation.

We were previously notified by Georgia Power that the size and scope of the solar project contemplated by the July 2015 EPC Contract may be reduced, due to a change in the utility customer's requirements, or could be terminated. Accordingly, we have been in discussions with Georgia Power regarding the status of the project and currently believe that the EPC Contract may be terminated entirely. As of the date of this report, the July 2015 EPC Contract has not been amended, restated or terminated, and the underlying solar project has not been definitively modified. In November 2015, based on the information available as of that time, we estimated that the associated revenues from the project would be reduced from the initial \$85 million project size to approximately \$60 million. Based on more recent information we have received, we currently estimate that no revenue will be generated by the July 2015 EPC Contract and, accordingly, have removed it entirely from revenue backlog as discussed in Item 7. Management's



Discussion and Analysis of Financial Condition and Results of Operations Backlog .

## **Utility Infrastructure**

### *Overview*

Our Utility Infrastructure solutions are focused on helping electric utilities design, build, upgrade and maintain infrastructure that enhances the efficiency of their grid systems. Our products and services include transmission and distribution system construction and maintenance, installation of advanced metering and efficient lighting, and emergency storm restoration. Additionally, we provide utilities with a wide range of engineering and design services, as well as consulting services for cybersecurity compliance, and regulatory and rate design matters.

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On February 8, 2016, we entered into a five-year MSA with the Bahamas Power and Light Company, a wholly owned subsidiary of Bahamas Electricity Corporation, the government owned electric utility for The Bahamas (excluding Grand Bahama), to assist BPL to conduct its operations as the electric utility for The Bahamas, manage the Bahamas electric infrastructure, and enhance its overall electric generation system and supply. The MSA includes a business plan which outlines cost-reduction and reliability targets along with renewable energy and customer service initiatives.

### ***Market***

There are more than 3,000 electric utilities in the U.S. In 2013, investor-owned electric utilities and stand-alone transmission companies invested a record-setting \$37.7 billion in transmission and distribution infrastructure, according to the Edison Electric Institute. Several industry trends indicate that strong transmission and distribution investment by utilities will continue over the coming years, including the need to upgrade and replace the utility grid's aging infrastructure to improve and ensure reliability, to respond to the expected long-term increase in demand for electric power, to incorporate renewable energy and other new power sources into the grid, and to ensure the security of the grid. According to a forecast made in October 2015 by the Edison Electric Institute, investor-owned electric utilities were planning to invest approximately \$85 billion on electric transmission infrastructure between 2015 and 2018. In December 2014, the Brattle Group projected that the total U.S. transmission investment over the next decade will be \$120-\$160 billion. In addition, the megatrend toward improving the efficiency of our energy delivery and consumption is driving initiatives and innovations in smart grid technology which will also be a positive driver for transmission and distribution system infrastructure spending.

Utilities generally use a combination of internal and third-party vendors to provide construction and maintenance services for their transmission and distribution infrastructure. Utilities also utilize third party engineering and consulting firms to supplement their internal engineering resources. We provide services in each of these areas for IOUs, electric cooperatives and municipal utilities of virtually every size. Historically, our geography was primarily concentrated in the Southeast. However, we have grown the geographic base of the utilities we serve over the last several years to include utilities in the Mid-Atlantic, Midwest, Gulf Coast and Southeast regions. We intend to continue to expand our utility relationships as our business grows and develops.

### ***Products and Services***

Our largest source of revenue within our Utility Infrastructure area is our UtilityServices products and services. Our UtilityServices team provides utilities with transmission and distribution construction and maintenance, including substation construction and maintenance, advanced metering and lighting installations, and storm restoration. In addition to providing these services directly to utilities, we also perform this work on behalf of utilities for their large industrial and institutional customers, and directly to large oil and gas companies. Similar to the products and services we provide for utilities, our work for large utility customers includes turn-key design, procurement and construction services for large transmission and distribution projects, including substations. Our resources include a fleet of owned and leased utility vehicles along with experienced field personnel and engineers, and we also utilize third party resources from time to time, as needed, to supplement our internal resources on particular projects.

Through our Encari, UtilityEngineering and PowerServices teams, we serve the engineering and consulting needs of our utility clients, broadening our offerings to our utility partners. The scope of services that we offer through UtilityEngineering includes technical engineering services for our utility partners and their customers, including design and engineering relating to virtually every element of their transmission and distribution systems, substations and renewable energy facilities. Through PowerServices, we provide management consulting services to utilities and commercial and industrial customers, including planning and quality improvement, technical studies involving reliability analysis and rate analysis, acquisition studies, accident investigations and power supply contracts and

negotiations. Our Encari business provides cybersecurity consulting and compliance services to the utility industry, helping large IOUs, municipalities and cooperative utilities assess, improve and maintain their compliance with the NERC's CIP Reliability Standards.

***Business Model***

Revenues for our UtilityServices products and services are generally earned, billed and recognized using two primary models. Under the first model, we have regular, on-going assignments with utilities to provide maintenance and upgrade services. These services are earned, billed and recognized either on a fixed fee basis, based on the number of work units we perform, such as the number of transmission poles we upgrade, or on a time and materials basis, based on the number of hours we invest in a particular project, plus amounts for the materials we utilize and install. Under the second model, we are engaged to design, build and install large infrastructure projects, including

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substations, transmission lines and similar infrastructure, for utilities and their customers. In these types of projects, we are generally paid a fixed contractual price for the project, plus any modifications or scope additions. We recognize revenues from these projects on a cost-to-cost method using percentage-of-completion basis. In addition to these two primary models, in the future we could be engaged by utilities and their customers to build or upgrade transmission and distribution infrastructure that we own and maintain. In those cases, we would receive fees over a long-term contract in exchange for providing the customer with access to the infrastructure to transmit or receive power.

Revenues for our Encari, UtilityEngineering and PowerServices consulting services are generally earned, billed and recognized based on the number of hours invested in the particular projects and engagements they are serving. Similar to most traditional consulting businesses, these hours are billed at rates that reflect the general technical skill or experience level of the consultant or supervisor providing the services. In some cases, our engineers and consultants are engaged on an on-going basis with utilities, providing resources to supplement utilities internal engineering teams over long-term time horizons. In other cases, our engineers and consultants are engaged to provide services for very specific projects and assignments.

Under the terms of our MSA with BPL, we will receive a baseline annual management fee of \$2 million. In addition, on an annual basis, if BPL achieves certain pre-defined key performance indicators related to cost reductions, reliability improvements and customer service enhancements, we would receive additional performance-based compensation of up to 150 percent of the annual management fee.

## **Energy Efficiency**

### ***Overview***

We deliver Energy Efficiency solutions to assist our customers in the achievement of their energy efficiency goals. We have two primary Energy Efficiency product and service offerings: light emitting diode, or LED, lighting fixtures and lamps, under our PowerSecure Lighting business, and energy efficiency upgrades for large energy services companies, referred to as ESCO customers, and large retailers, under our Energy Efficiency Services business. Our LED lighting solutions are primarily focused on the utility, commercial and industrial markets, while our energy efficiency solutions are primarily focused on serving the ESCO and retail channels. We also market our Distributed Generation products and services in our Energy Efficiency Services solutions. In the future, we also plan to bring our LED lighting solutions to our ESCO and retail customer base. In both of our Energy Efficiency product and service lines, we deliver highly engineered product solutions and upgrades with strong value propositions that are designed to reduce energy costs, improve operations and benefit the environment.

Our LED lighting products, led by our PowerSecure Lighting team and operations, include the following:

Our Solais brand, which includes LED-based lamps and fixtures for department stores and other commercial applications. Our Solais team oversees all of our LED lighting operations.

Our EfficientLights brand, which includes LED-based lighting fixtures for grocery, drug and convenience stores. EfficientLights products include our EfficientLights fixture for reach-in refrigerated cases, shelf and canopy lighting for open refrigerated cases, overhead lighting for walk-in storage coolers.

Our IES brand, which includes LED-based lighting fixtures for utilities, commercial and industrial, and OEM applications. IES products include street lights, area lights, indoor overhead lighting, and other specialty lighting applications.

Our EnergyLite brand, which is used to market our IES and EfficientLights brands primarily, but we may also use it from time to time for other LED lighting products. EnergyLite s products are marketed to customers and utilities directly, and through third party distribution arrangements.

In 2013, we acquired our Energy Efficiency Services business, which gives us the capability to provide general lighting, building envelope, HVAC and water efficiency solutions to ESCOs, which deliver these energy efficiency solutions to public sector commercial, industrial and institutional facilities. In September 2014, we acquired the electrical contracting business of Apex. Apex provides retrofit and electrical contracting services to major retailers, in most cases through general contractors, and provides us with the capacity to provide our Energy

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Efficiency services to large retailers. In December 2015, we acquired the energy services business of ESCO Energy Services Company, which provides lighting retrofit solutions that deliver energy savings for large ESCOs and commercial and industrial, institutional, utility and municipal customers across the United States. The acquired business provides a broad range of turn-key energy efficiency services including energy audits, materials procurement, project management, implementation and verification, expanding both our geographical presence and services capabilities.

The primary client base for our Energy Efficiency Services products and services are the large, publicly-traded ESCOs. Through our relationships with these ESCOs, we provide facility upgrades primarily for public sector customers, including federal, state and local government agencies and educational institutions. As ESCOs are awarded project contracts with public sector clients, we assist them by providing energy efficiency expertise to develop and implement tailored solutions under their contracts. From time to time, we also serve larger commercial and industrial clients for which we provide our energy efficiency solutions directly, when an ESCO is not involved in the customer relationship. Through Apex, we are also able to provide our Energy Efficiency Services solutions to large retailers.

We focus on deploying solutions to improve the energy efficiency of large facilities, including reducing energy-related expenditures, and the impact of energy use on operations and the environment. This helps our Energy Efficiency Services customers save money, improve facilities and meet energy efficiency goals and mandates. Our solutions include energy efficient lighting upgrades, energy efficient mechanical and electrical retrofit and upgrade services, water conservation, building weatherization, and renewable energy project development and implementation. We provide energy solutions across a range of facilities, including high-rise office buildings, distribution facilities, manufacturing plants, retail sites, multi-tenant residential buildings, mixed use complexes, hospitals, universities and large government sites. We have also recently added our Distributed Generation products as part of these solutions, and in the future plan to incorporate our and LED lighting products as well.

## ***Market***

The market for LED-based lighting is large and expected to grow rapidly over the next decade. This market growth is driven by the many benefits LED lights provide over traditional lighting, including superior energy efficiency, improved quality of the light emitted, superior heat characteristics, smaller size, relatively low cost over time and longer life. Because of these factors, LED lighting is also better for the environment than traditional lighting. LED lighting can be utilized in a large range of broad general commercial and industrial lighting applications, as well as used effectively in very specialized applications. In our markets, many of our customers have concluded that LED lighting is the superior choice over traditional lighting, both for new facility installations and for investments to retrofit existing facilities, due to the financial and environmental benefits and its superior lighting quality. Utilities can also benefit from this technology due to the availability of renewable energy portfolio credits for the energy efficiencies our lights deliver, as well as the direct financial and environmental benefits available from investments in LED street lights.

The general LED lighting industry and market is served by companies in the areas of LED chip technology and manufacturing, and in LED lighting application development and manufacturing, the latter area being the one in which we participate and serve. The market for LED-based lighting applications, and the pace at which LED lighting is being and will be adopted, is driven by the return on investment available when an LED-based light is utilized instead of, or as a replacement for, traditional lighting. In particular, the size and growth of the LED lighting market is driven by the return on investment available to retrofit existing traditional lighting installations with LED lighting, given the significant size of the installed base of traditional lighting. To a large extent, this return on investment is influenced and driven by the cost of the LED itself, because the LED is the largest single component of cost in the LED lighting application. Over the past several years, the cost of LEDs has decreased significantly, which has been a

catalyst driving the growth and expansion in the market for general LED lighting applications. Additionally, LED lighting application and manufacturing companies, such as us, have improved the efficiency and effectiveness of application designs. The combination of these factors has increased the return on investment for LED lighting applications in general, and for LED retrofit opportunities in particular. We believe these factors will continue to cause the market for LED-based general lighting to continue to grow and expand over the next five to 10 years. Demand for our LED products may also be impacted by changes in government policies, standards or regulations that discourage the use of certain traditional lighting technologies.

In the Energy Efficiency Services market, ESCOs develop, install and arrange financing for projects designed to improve the energy efficiency of buildings and other facilities. Typical products and services offered by energy efficiency companies include boiler and chiller replacement, HVAC upgrades, lighting retrofits, equipment

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installations, on-site cogeneration, renewable energy systems, load management, energy procurement, rate analysis, risk management and billing administration. ESCOs often offer their products and services through energy savings performance contracts, or ESPCs. Under these contracts, ESCOs assume certain responsibilities for the performance of the installed measures, under assumed conditions, for a portion of the project's economic lifetime. We are a service provider to the ESCOs providing the technical expertise, engineering support and implementation services for their energy efficiency projects.

We believe the following factors continue to drive demand for energy efficiency projects in the markets in which we operate:

the return on investment driven by the cost savings from the installation of energy efficient and renewable energy solutions;

government initiatives to improve the efficiency of federal facilities and to utilize energy from renewable sources;

the availability of rebates and financial incentives for organizations that reduce their energy consumption; and

concerns regarding the substantial and volatile cost of energy, the adverse implication of global climate change and the desire for energy independence and security.

### ***Products and Services and Business Model***

Our LED lighting revenues are generated through the sale of LED-based light fixtures and lamps. Our portfolio of products consists exclusively of our proprietary designs, which are generally focused on very specific applications. These applications require our lights to be highly engineered to maximize the quality, and amount of light produced, at the lowest cost. This formula, in turn, enables us to provide our customers with lighting that maximizes the return on investment for their lighting spend. We design and manufacture our LED-based lights for utilities, commercial and industrial customers. Our lighting generally reduces energy consumption by 60-70%, improves the quality of light, reduces maintenance expense, extends light life by several-fold, lowers a facilities' carbon footprint, and eliminates the use of traditional lighting which can contain environmental hazards.

Our LED lighting product line includes:

LED-based lamps and fixtures for department stores and other commercial applications, including display and down-lighting;

LED-based lighting fixtures for grocery, drug and convenience stores, including lights for reach-in refrigerated cases, shelf and canopy lighting for open refrigerated cases, overhead lighting for walk-in storage coolers; and



LED-based lighting fixtures for utilities, commercial and industrial, and OEM applications, including area lights, indoor overhead lighting, and other specialty lighting applications.

The majority of our LED lights are sold as retrofits for existing traditional lighting, and to a lesser extent for new construction lighting installations. Additionally, historically the majority of our lights have been sold by us directly to our customers, although we also have distributor relationships that serve certain product lines and are becoming an increasing part of our sales channels. Occasionally we provide installation services, although that is not a significant portion of our business. We also assist our customers in receiving utility incentives for LED lighting. Our customers are primarily large retail chains, utilities, department stores, and large commercial and industrial customers. These customers typically install LED lighting across numerous locations over a diverse geographic scope. We expect our customer base and sales channels to continue to grow and develop as LED technology continues to be more widely adopted. As we bring additional products to market, we expect to employ a similar business model with our LED lighting products with a greater portion of our sales driven through distributorship channels.

Our Energy Efficiency Services revenues are generated through a full range of turn-key services we provide to our ESCO, utility, industrial and municipality customers. We apply our engineering expertise to analyze a facility's energy consumption and operational needs, and develop customized energy efficiency and renewable energy solutions to optimize that facility's return on investment. We provide complete turn-key implementation services for a range of energy efficiency and renewable energy projects, including energy efficient lighting upgrades, energy efficiency mechanical and electrical retrofit and upgrade services, water conservation, weatherization, combined

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heat and power or cogeneration and renewable project development and implementation. We consider factors such as current facility infrastructure, best available technologies, building environmental conditions, hours of operation, energy costs, available utility rebates, tax incentives, and installation, operation and maintenance costs of various efficiency alternatives. Our extensive knowledge of energy solutions and their results in numerous environments enables us to apply some of the most appropriate, effective and proven technologies available in the marketplace.

## **Revenue Backlog**

Our revenue backlog is discussed in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Backlog of this report. Orders in our backlog are subject to delay, deferral, acceleration, resizing or cancellation from time to time. Given the irregular sales cycle of customer contracts and orders, and especially of large contracts and orders, our backlog at any given time involves the use of estimates and is not necessarily an accurate indication of our future revenues.

## **Customers**

Our customers include a wide variety of large and mid-sized commercial and industrial businesses, public and private institutions, and utilities, including investor-owned utilities, cooperatives and municipalities. Although we have continued to diversify and expand our customer base and our markets, from time to time, we have derived a significant portion of a particular period's revenues from a concentrated group of customers, because a significant portion of our revenues in any particular period can be driven by one or more large projects, such as our large utility-scale solar projects, or because of our successful penetration of certain markets, such as the data center industry for our Distributed Generation projects. In 2015, our revenues from Georgia Power from our utility-scale solar projects and from Oncor Electric Delivery Company, LLC represented 13.8% and 10.8%, respectively of our consolidated revenues. Over the past three years, virtually all of our revenues have been generated from customers in the United States, although in 2015 we commenced receiving revenues from customers in Canada and we received revenues from our management services in the Bahamas to the predecessor of BPL, and expect revenues from such countries to increase in 2016.

## **Sales and Marketing**

We market our products and services primarily through a direct sales force. Our sales and marketing effort is focused on sales channels that include, are complementary to, and are in partnership with utilities, as well as national and local commercial, industrial, institutional and municipal accounts.

For our Distributed Generation products and services, we are very focused on the needs of utilities and partner with utilities to develop, market and manage Distributed Generation systems to their large commercial and industrial customers. This partnering process includes combining our Distributed Generation solutions with products or services of the utility, and working with the utility in marketing our Distributed Generation solution to end customers. We market our Utility Infrastructure products and services directly to utilities, including investor-owned utilities, cooperatives and municipalities. We market our Energy Efficiency LED lighting products to commercial, industrial and institutional customers, as well as directly to utilities and municipalities. We also use distributors for our Solais product line, and expect these distributor relationships will be an increased part of our sales channel for our lighting products in the future. For our Energy Efficiency Services business, we market our products and services directly to the ESCOs, as well as to municipalities, utilities, large retailers and other industrial and commercial customers.

In each of our business areas, from time to time, we utilize independent representative networks, and we also establish alliances with channel partners who can assist with our sales and marketing activities. We plan to continue expanding

our sales and marketing efforts in order to market and support our traditional and our new products, services and technologies, including direct sales as well as through third party representatives and channel partners.

### **Competition**

We face intense competition for all of our product and service offerings.

In our Distributed Generation segment, our competition primarily consists of manufacturers and distributors of power generation and heavy electrical equipment including switchgear companies, electrical contractors, electrical engineering firms and companies involved in providing utilities with demand response and load curtailment products and services. Electric utilities could also offer their own Distributed Generation solutions,

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which would decrease our base of potential customers. Additionally, several well established companies have developed microturbines used in Distributed Generation, and a number of companies are also developing alternative generation technology such as wind, fuel cells and solar energy systems. Several large companies are also becoming leaders in uninterruptible power supply system technology, and companies developing and marketing their proprietary smart grid technologies are also potential competitors. Many of these technologies are eligible for and supported by governmental financial incentives. Additionally, technologies that make commercial, institutional and industrial operations more efficient result in lower electricity use, reducing the benefits of using our Distributed Generation systems.

In our Solar Energy segment, the solar energy market is very competitive and rapidly evolving, and is significantly dependent on government incentives. The solar industry is characterized by intense pricing competition as well as other forms of competition, which may result in price reductions, reduced margins or loss of market share. Our solar power products and systems compete with a large number of competitors in the solar power market, including major national companies such as completely vertically integrated companies as well as numerous regional developers, some of which are in poor financial condition. The principal elements of competition in the solar power systems market include engineering capabilities, technical expertise, price, experience, delivery capabilities, diversity of product offerings, financing structures, marketing and sales, product performance, efficiency and reliability, and technical service.

In our Energy Efficiency segment, we face numerous competitors. These include numerous global competitors, many based in Asia, in the market for lighting products in general, and for LED lighting products in particular. Generally, the less specialized that the lighting application is, the more competitors there are in that space. Accordingly, we focus our efforts in this area on more specialized, proprietary applications, and we also focus on bringing technologies to customer categories and utilities that we understand best and represent our strongest relationships. However, the LED lighting marketplace is highly fragmented and expanding at a very fast pace, and a significant number of new competitors are entering the market, including large companies that are strong, sophisticated, have established channel relationships and are well-capitalized. Additionally, new competitive technologies are being developed and existing technologies are being improved at a rapid pace. Our LED lighting products currently face competition from lighting fixture companies, from lamp manufacturers and from non-traditional companies focused on LED lighting systems including fixtures and components. Our products compete on the basis of lighting color quality and consistency, light output, energy efficiencies, maintenance savings, light life and return on the customer's investment. We also face numerous competitors for our Energy Efficiency Services solutions, including regional and national solutions providers. Many of these competitors are focused on one aspect of our Energy Efficiency Services solutions, for example HVAC solutions, and several have a suite of multiple solutions they can offer the ESCOs. The competition for these solutions is strong, with highly skilled, well-financed competitors, and the requirements of our ESCO customers are demanding.

In our Utility Infrastructure segment, our UtilityServices solutions also compete with numerous providers of transmission and distribution construction and maintenance firms. Many of these firms have broader customer bases, strong track records of performance and larger resources of personnel and equipment. Competitors in this area are diverse, consisting of both large and small firms on regional and national levels. In addition, our Encari, UtilityEngineering and PowerServices consulting services have numerous competitors, large and small, that offer engineering, design and consulting services to utilities. Also, utilities have their own internal engineering resources that provide alternatives to using our services.

The markets for our products, services and technology are competitive and are characterized by rapidly changing technology, new and emerging products and services, frequent performance improvements and evolving industry and regulatory standards. We expect the intensity of competition to increase in the future because the growth potential of

the energy market has attracted and is anticipated to continue to attract many new competitors, including new businesses as well as established businesses from different industries. As a result of increased competition, we may have to reduce the price of our products and services, and we may experience reduced gross margins, loss of market share or inability to penetrate or develop new markets, or increases in operating expenses or capital investment required to develop and maintain competitive product offerings, any one of which could adversely affect our operating results.

We believe that our ability to compete successfully will depend upon numerous factors, many of which are outside of our control. These factors include:

the performance and features functionality and benefits of our, and of our competitors , products and services;

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the value to our customers for the price they pay for our products and services;

the timing and market acceptance of new products and services and enhancements to existing products and services developed by us and by our competitors, including the effects of environmental initiatives on existing and new technologies and customer preferences;

our responsiveness to the needs of our customers;

the ease of use of our, and of our competitors , products and services;

the quality and reliability of our, and of our competitors , products and services;

our reputation and the reputation of our competitors;

our sales and marketing efforts;

the stability of certain state and federal incentives for energy efficiency and renewable energy;

our ability to develop and maintain our strategic relationships; and

the price of our, and of our competitors , products and services, and the cost to engineer, produce and deliver our products compared to our competitors, as well as other technological alternatives in the marketplace.

We believe that in many of our markets we have established ourselves as a niche supplier of high quality, reliable products and services and, therefore, compete favorably with respect to the above factors. We do not typically attempt to be the low cost provider. Rather, we endeavor to compete primarily on the basis of the quality of our products and services. In order to be successful in the future, we must continue to respond promptly and effectively to the challenges of technological change and to our competitors innovations. We cannot provide any assurance that our products and services will continue to compete favorably in the future against current and future competitors or that we will be successful in responding to changes in other markets including new products and services and enhancements to existing products and services introduced by our existing competitors or new competitors entering the market.

**Regulation**

Our businesses and operations are affected by various federal, state, local and foreign laws, rules, regulations and authorities. While to date, our compliance with those requirements has not materially adversely affected our business, financial condition or results of operations, we cannot provide any assurance that existing and new laws and regulations will not materially and adversely affect us in the future.

*Regulation of Operations Generally.* Our operations are subject to various federal, state, local and international laws and regulations including:

licensing, permitting and inspection requirements applicable to contractors, electricians and engineers;

building and electrical codes;

permitting and inspection requirements applicable to construction and electrical projects;

regulations relating to worker safety and health;

regulations relating to employees, such as wage and hour regulations;

regulations pertaining to utilities and energy providers;

special bidding, procurement and other requirements on government projects;

regulations relating to transportation of equipment and materials, including licensing and permitting requirements;

regulations relating to environmental protection;

the Foreign Corrupt Practices Act and similar anti-bribery and anti-corruption laws and regulations; and

federal and state energy efficiency incentives.

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We believe that we have obtained, or are in the process of obtaining, all the licenses required to conduct our operations and that we are in substantial compliance with applicable regulatory requirements. Our failure to comply with applicable regulations could result in substantial fines or revocation of our operating licenses.

*Regulation of Electricity.* We operate in both regulated and deregulated electricity markets. Rules and regulations within these markets impact how quickly our projects may be completed, could affect the prices we can charge and the margins we can earn and impact the various ways in which we are permitted or may choose to do business and, accordingly, our assessments of which potential markets to most aggressively pursue. The policies regarding our Distributed Generation solutions, safety regulations and air quality or emissions regulations, which can vary by state, affect how we do business. For example, some environmental agencies limit the amount of emissions allowed from generators utilized by our customers. In addition, because our Distributed Generation projects interconnect with the electric power grid, grid interconnection public safety regulations apply. The installation of devices used in our solutions and our generators may be subject to governmental oversight and regulation under state and local ordinances relating to building codes, public safety regulations pertaining to electrical connections and state and local licensing requirements. Moreover, federal, state and local governmental and regulatory authorities may seek to change existing regulations, impose additional regulations or change their interpretation of the applicability of existing regulations. We expect the electric utility industry to continue to undergo changes due to the changing and uncertain regulatory environment.

*Regulation of Solar Operations.* The market for electricity generating products is strongly influenced by federal, state and local government regulations and policies concerning the electric utility industry as well as policies promulgated by electric utilities. These regulations and policies often relate to electricity pricing and technical interconnection of customer-owned electricity generation. In the U.S., these regulations and policies have been modified in the past and may continue to be modified in the future. Customer purchases of alternative energy sources, including solar power technology, could be deterred by these regulations and policies, which could result in a significant reduction in the demand for our solar power products. Moreover, our solar power systems are subject to oversight and regulation in accordance with national and local ordinances relating to building codes, safety, environmental protection, utility interconnection and metering and related matters.

*Regulation of Environment.* While various federal, state and local laws and regulations covering the discharge of materials into the environment, or otherwise relating to the protection of the environment, may affect our business, our financial condition and results of operations have not been materially adversely affected by environmental laws and regulations. We believe we are in material compliance with those environmental laws and regulations to which we are subject. While in the past we have incurred costs to maintain environmental compliance and otherwise address environmental issues, we do not anticipate that we will be required make material capital expenditures due to these environmental laws and regulations in the foreseeable future. However, because environmental laws and regulations are frequently changed and expanded and our business operations and activities are growing, we are unable to provide any assurance that the cost of compliance in the future will not be material to us or our customers.

## **Employees**

As of March 9, 2016, we had 1,001 full-time and 34 part-time employees. None of our employees is covered by a collective bargaining agreement and we have not experienced any work stoppage. We consider our relations with our employees to be good. Our future success is dependent in substantial part upon our ability to attract, retain and motivate qualified management, technical, marketing and other personnel.

## **Training, Quality Assurance and Safety**



The performance of our services in many areas of our business, especially our UtilityServices operations, requires the use of equipment and exposure to conditions and situations that are dangerous and can be life threatening. We are committed to a policy of operating safely and prudently, and we emphasize safety at every level of our organization, with safety leadership in senior management and an extensive and required ongoing safety and training program.

### **Risk Management and Insurance**

We maintain insurance arrangements with coverage customary for companies of our type and size, including general liability, automotive liability and workers compensation. Additionally, poor safety performance can have an immediate and significant negative impact on our customer relationships and financial results. We are partially self-insured

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under our major policies, and our insurance does not cover all types or amounts of liabilities. We also maintain insurance for extraordinary health insurance claims. We are not required to, and do not, specifically set aside funds for our self-insurance programs. Losses are accrued based on estimates of the ultimate liability for claims reported and an estimate of claims incurred but not reported. We maintain accruals based on known facts and historical trends. We generally renew our insurance policies on an annual basis, so the types, levels and scopes of coverage may change from time to time in future periods. In addition, insurers may cancel our coverage or determine to exclude certain items from coverage, or we may elect not to obtain certain types or incremental levels of insurance if we believe that the cost to obtain such coverage exceeds the additional benefits obtained.

## **Performance Bonds and Letters of Credit**

In the ordinary course of business, we are required by certain customers to post surety or performance bonds or letters of credit in connection with services that we provide to them. These bonds and letters of credit provide a guarantee to the customer that we will perform under the terms of a contract and that we will pay subcontractors and vendors. If we fail to perform under a contract or to pay subcontractors and vendors, the customer may demand that the surety, in the case of a performance bond, or our lenders, in the case of a letter of credit, make payments or provide services under the bond. We must reimburse the surety or our lenders for any expenses or outlays they incur. We have not been required to make any reimbursements to our sureties for bond-related costs, and we do not currently expect that we will have to fund significant claims under our surety arrangements in the foreseeable future. As of December 31, 2015, we had approximately \$451 million in surety bonds outstanding. Based upon the current status of our contracts and projects, we estimate our exposure on these surety bonds was approximately \$196 million at December 31, 2015.

## **Raw Materials and Component Parts**

In our businesses we purchase generators, engines, alternators, electronic components, printed circuit boards, specialized sub-assemblies, relays, electric circuit components, fabricated sheet metal parts, machined components, copper, aluminum, metallic castings, LEDs, other LED lighting materials and components, wire, poles, transformers, inverters, solar panels, lighting, HVAC systems, boilers, plumbing systems, windows, insulation and various other raw materials, equipment, parts and components for our products and systems from third party vendors and suppliers. While we generally use standard parts and components for our products and systems that are readily available from multiple suppliers, we currently procure, and expect to continue to procure, certain components from single source manufacturers due to unique designs, quality and performance requirements and favorable pricing arrangements.

While, in the opinion of management, the loss of any one supplier of materials would not have a material adverse impact on our business or operations due to our belief that suitable and sufficient alternative vendors would be available, from time to time we do encounter difficulties in acquiring certain components due to shortages that periodically arise, supply problems from our suppliers, obsolescence of parts necessary to support older product designs or our inability to develop alternative sources of supply quickly or cost-effectively, and these procurement difficulties could materially impact and delay our ability to manufacture and deliver our products and therefore could adversely affect our business and operations. We attempt to mitigate this risk by maintaining an inventory of such materials. In addition, some of the raw materials used in our business, including but not limited to generators, transformers and engines, have significant lead times before they are available, which may affect the timing of our project completions. These delays and lead times can be even longer for parts and materials that we obtain from international sources.

## **Intellectual Property**

Our success and ability to grow depends, in part, upon our ability to develop and protect our proprietary technology and intellectual property rights in order to distinguish our products, services and technology from those of our competitors. We rely primarily on a combination of copyright, trademark and trade secret laws, along with confidentiality agreements, contractual provisions and licensing arrangements, to establish and protect our intellectual property rights. We hold several copyrights, service marks and trademarks in our business, and we have applied for a patent protection and registrations of additional marks, although we may not be successful in obtaining such patent and registering such marks. In the future, we intend to continue to introduce and register new trademarks and service marks, and to file new patent applications, as we deem appropriate or necessary for our business and marketing needs.

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Despite our efforts to protect our intellectual property rights, existing laws afford only limited protection, and our actions may be inadequate to protect our rights or to prevent others from claiming violations of their intellectual property rights. Unauthorized third parties may copy, reverse engineer or otherwise use or exploit aspects of our products and services, or otherwise obtain and use information that we regard as proprietary.

We do not believe that we are dependent upon any one copyright, trademark, service mark or other intellectual property right. Rather, we believe that, due to the rapid pace of technology and change within the energy industry, the following factors are more important to our ability to successfully compete in our markets:

the technological and creative skills of our personnel, including our entrepreneurial culture and engineering staff;

the development of new products, services and technologies;

frequent product, service and technology enhancements;

the return on investment that our products and services deliver to our customers, including our turn-key product and service approach and integrated solutions;

our customer relationships, name recognition and reputation in the marketplace;

customer and employee training and development; and

reliable products and service support.

We cannot assure you that we will be successful in competing on the basis of these or any other factors. See Competition above in this item.

## **Research and Development**

Our business leaders and their teams spend a significant amount of time on research and development including management and engineering time, and virtually all of our research and development is performed internally by our personnel. Our research and development activities include developing and enhancing our generator products, controls, switchgear, monitoring and control software, LED lighting products and components, substation products and designs, microgrid products, and electrical storage technologies, among other research and development activities. We intend to continue our research and development efforts to enhance our existing products and services and technologies and to develop new products, services and technologies enabling us to enter into new markets and better compete in existing markets.

The markets for our products, services and technology are dynamic, characterized by rapid technological developments, frequent new product introductions and evolving industry standards. The constantly changing nature of

these markets and their rapid evolution will require us to continually improve the performance, features and reliability of our products, services and technology, particularly in response to competitive offerings, and to introduce both new and enhanced products, services and technology as quickly as possible and prior to our competitors. We believe our future success will depend, in part, upon our ability expand and enhance the features of our existing products, services and technology and to develop and introduce new products, services and technology designed to meet changing customer needs on a cost-effective and timely basis.

### **Business Investments and Acquisitions**

We believe that each of our business segments offers organic growth opportunities, and we have been focused on creating organic revenue growth. In addition, from time to time we have made business investments and acquisitions to take advantage of opportunities to acquire key businesses, products, services, technology, customer relationships and management talent that we believed would enhance our capabilities and our solutions for our customers, and be financially beneficial. Since 2012, we have made a number of important business investments and acquisitions, including the following:

In June 2012, we acquired PowerSecure Solar, a distributed solar energy business, adding a solar energy capability to our Distributed Generation system platform that grew into its own platform and segment. This acquisition provided us the capability to provide stand-alone solar energy PV systems to utilities and their commercial and industrial customers, and enhanced our capabilities to utilize solar energy in combination with our traditional Distributed Generation and microgrid systems.

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In February 2013, we acquired our Energy Efficiency Services business. This acquisition strengthened our Energy Efficiency product and services offerings by expanding our portfolio of energy efficient facility technologies and expertise, which now includes lighting solutions, HVAC system upgrades, building envelope upgrades, transformer efficiency upgrades and water conservation systems.

In April 2013, we acquired Solais, an LED lighting company with a proprietary portfolio of LED lamps and fixtures for commercial and industrial applications. Solais' innovative designs, which are covered by a variety of patents and patents pending, provide their products with enhanced light output, thermal management, optics and light quality, and aesthetics. The acquisition of Solais strengthened and complemented our existing LED business through the addition of new product lines and new skill sets around product design, product commercialization, and manufacturing and sourcing capabilities. In addition, Solais added to our capabilities in marketing LED lighting through distributor channels.

In May 2013, we acquired the business and certain assets of Powerline, which involves safety training in electrical utility work and enhances our Utility Infrastructure safety and training programs with additional resources and capabilities.

In October 2013, we acquired the assets and business of Encari, which provides cybersecurity consulting and compliance services to the utility industry. Encari helps utilities assess, improve and maintain their compliance with NERC CIP Reliability Standards.

In September 2014, we acquired the electrical contracting business of Apex, which provides retrofit and electrical contracting services to major retailers, in most cases through general contractors. This acquisition is part of our strategy to expand our Energy Efficiency services market base to retailers.

In October 2014, we acquired the mission critical data center energy services operations, which provides full turn-key electrical infrastructure design, implementation and commissioning service to data center owners. We previously provided our Distributed Generation data center solutions as a supplier to that business. This acquisition has provided us with a direct customer channel and capabilities to accelerate our access to key data center decision makers who are designing and evaluating backup power and control systems for their facilities.

In December 2015, we acquired the energy services business of ESCO Energy Services Company, which is based in Lenox, Massachusetts and provides lighting retrofit solutions which deliver energy savings for large energy services companies and commercial and industrial, institutional, utility and municipal customers across the United States. The acquired business provides a broad range of turn-key energy efficiency services including energy audits, materials procurement, project management, implementation and verification, expanding both our geographical presence and services capabilities.

While we regularly engage in discussions relating to potential acquisitions and dispositions of assets, businesses and companies, as of the date of this report we have not entered into any binding agreement or commitment with respect to a material acquisition or disposition that has not been disclosed in this report.

## Reportable Segments

Our reportable segments are currently organized around the following products and services that we offer as part of our core business strategy:

Distributed Generation solutions;

Solar Energy solutions;

Utility Infrastructure solutions; and

Energy Efficiency solutions.

Prior to the year ended December 31, 2015, the Distributed Generation and Solar Energy operating segments, described in greater detail below, had been reported on an aggregated basis under our Distributed Generation segment. We subsequently determined that we misapplied the provisions of Financial Accounting Standards Board's Accounting Standards Codification (ASC) Topic 280, Segment Reporting (ASC 280), in regards to our identification and aggregation of operating and reportable segments. During the year ended December 31, 2015, we correctly identified and reported segment activity pursuant to the provisions of ASC 280, and we have restated segment information for the years ended December 31, 2014, 2013 and 2012 to correct our error and to conform to our current presentation.

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Financial information related to our segment operations for the past four fiscal years is set forth in Note 14, Segment Information of the notes to our consolidated financial statements included beginning at page F-1 of this report and incorporated herein by reference.

**Available Information**

Our corporate website is located at [www.powersecure.com](http://www.powersecure.com). On the investor relations section of our website, we make available, free of charge, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports as soon as reasonably practicable after we electronically file them with or furnish them to the SEC. You may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. You may obtain information on the operation of the SEC's Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC's website is located at [www.sec.gov](http://www.sec.gov) that contains all of the reports, proxy and information statements and other information that we file with or furnish to the SEC.

We webcast our earnings calls and certain events we participate in with members of the investment community on our investor relations website. Additionally, we provide notifications of news or announcements regarding our financial performance, including SEC filings, investor events and press and earnings releases as part of the investor relations section of our website. Further corporate governance materials, including our Corporate Governance Guidelines, charters of our Board committees and our Code of Conduct, are also available on the investor relations portion of our website. The content of and the information available on or accessible through our corporate website, including the investor relations portion of our website, is not a part of, and is not incorporated into, this report or any other report or document we file with or furnish to the SEC, and any references to our website are intended to be an inactive textual references only.

**Executive Officers of the Registrant**

The names of our executive officers and their ages, positions with us and biographies as of March 14, 2016 are set forth below:

| <b>Name</b>           | <b>Age</b> | <b>Positions</b>   |
|-----------------------|------------|--|
| Sidney Hinton         | 53         | President, Chief Executive Officer and Director  |
| Christopher T. Hutter | 49         | Executive Vice President, Chief Operating Officer, Assistant Secretary   |
| Eric Dupont           | 43         | Executive Vice President, Chief Financial Officer, Treasurer and Secretary   |
| Gary J. Zuiderveen    | 57         | Vice President of Financial Reporting, Controller, Principal Accounting Officer, Assistant Treasurer and Assistant Secretary |
| Ronnie Brannen        | 53         | President of Utility Infrastructure and Chief Utility Officer  |

Our executive officers are appointed by, and serve at the discretion of, our Board of Directors. Each executive officer is a full-time employee. There are no family relationships between any of our executive officers or directors.

**Sidney Hinton** has served as our President and Chief Executive Officer and a member of our Board of Directors since 2007. Mr. Hinton has also served as the President and Chief Executive Officer of our principal subsidiary PowerSecure, Inc. since its incorporation in September 2000. In 2000, he was an Executive-in-Residence with



Carousel Capital, a private equity firm. In 1999, he was the Vice President of Market Planning and Research for Carolina Power & Light (now known as Progress Energy). From August 1997 until December 1998, Mr. Hinton was the President and Chief Executive Officer of IllumElex Lighting Company, a national lighting company. From 1982 until 1997, he was employed in several positions with Southern Company and Georgia Power Company.

**Christopher T. Hutter** has served as an executive officer since joining our company in December 2007, serving as our Executive Vice President since March 2010 and as our Chief Operating Officer since November 2014. He previously

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served as our Chief Financial Officer and Treasurer from December 2007 until October 2015, our Secretary from September 2012 until October 2015, and our Vice President from December 2007 until March 2010. Mr. Hutter was employed in various management positions with ADVO, Inc., a NYSE-listed media and marketing services company located in Hartford, Connecticut, from 1993 until March 2007, when ADVO was acquired by Valassis Communications, Inc. He served as ADVO's National Vice President, Finance, Treasurer, Investor Relations and Assistant Secretary from December 2005 until March 2007, as its Vice President, Financial Planning and Analysis, Investor Relations and Treasurer from November 2003 until December 2005, as its Vice President, Investor Relations and Assistant Treasurer from October 1999 until November 2003, and as its Vice President, Financial Planning and Analysis, Investor Relations and Treasurer from 1998 until 1999. From 1993 through 1998, Mr. Hutter held various financial management positions with ADVO. From 1989 until 1991, he was employed as a senior staff tax consultant with Deloitte & Touche LLP, an international accounting firm.

**Eric Dupont** has served as our Executive Vice President and Chief Financial Officer, Secretary and Treasurer since October 2015, having previously served as our Executive Vice President of Finance and Administration from September 2014 until October 2015 and as the Vice President of Finance of our PowerSecure, Inc. subsidiary since joining our company in March 2013. From June 2008 to February 2013, Mr. Dupont served in a variety of positions with Lime Energy Co., an energy services company based on Huntersville, North Carolina, including ultimately as its Vice President of Operations. From 2004 through June 2008, he served as Chief Financial Officer of Applied Energy Management, Inc., a Cornelius, North Carolina based energy efficiency services company, which was acquired by Lime Energy Co. in June 2008. From 1998 through 2004, he served as the Director of Structured Finance for Ameresco, Inc., formerly DukeSolutions, Inc., a Duke Energy subsidiary. Mr. Dupont was employed with KPMG Peat Marwick LLP from 1995 through 1998 as a supervising senior.

**Gary J. Zuiderveen** has served as our Vice President of Financial Reporting, Controller and Principal Accounting Officer since December 2007. Mr. Zuiderveen also serves as our Assistant Secretary and Assistant Treasurer. He served as our Vice President and Chief Financial Officer from April 2007 through December 2007, as our Controller, Principal Accounting Officer and Secretary from April 2001 through April 2007, and as our Secretary from December 2007 until September 2012. He had previously served as our Controller from May 1994 until May 2000 and as our Secretary and Principal Accounting Officer from August 1996 until May 2000. From June 1992 until May 1994, Mr. Zuiderveen was the General Accounting Manager at the University Corporation for Atmospheric Research in Boulder, Colorado. From 1983 until June 1992, he was employed in the Denver, Colorado office of Deloitte & Touche LLP, providing accounting and auditing services to clients primarily in the manufacturing and financial services industries and serving in Deloitte's national office accounting research department.

**Ronnie Brannen** has served in various capacities with the PowerSecure Subsidiary, including as the Chief Revenue Officer of the PowerSecure Subsidiary from November 2014 until January 2016, and prior thereto as the President of the PowerSecure Subsidiary's UtilityServices division. Prior to joining PowerSecure, Mr. Brannen served in a variety of positions at Georgia Power Company, a subsidiary of Southern Company, from August 1984 to August 2007. From 1984 until 1995, Mr. Brannen was employed in the transmission and distribution business in the areas of construction and project management. From 1995 until 1997, he worked in the unregulated side of the business, in the Lighting Services Business Unit, as a project manager and construction manager. From 1997 until 1999, he was employed in the Central Region distribution business as a safety & training specialist and distribution supervisor. From 1999 until 2001, he served in the marketing business unit as an account executive for large industrial customers and worked on new product and service development. In 2001, Mr. Brannen worked on a special assignment to create a new unregulated business unit, Power Services, with a focus on offering products and services to electric users in the State of Georgia. He remained in this start-up until 2007, when he joined PowerSecure.



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### **Item 1A. Risk Factors**

Our operations and financial results are subject to and may be affected by many risks, uncertainties and other factors, including those set forth below and those contained elsewhere in this report. These risks, uncertainties and other factors could materially and adversely affect our business, affairs, assets, financial condition, results of operations, cash flows and prospects, as well as the trading price of our common stock. When we say that something could have a material adverse effect on us or on our business or words of similar import, we mean that it could have one or more of those effects.

#### **Risks Related to Our Business and Industry**

***We may not be able to continue to grow our company and remain profitable in future periods, or to reach or exceed the levels of growth, revenues, margins and operating and net income that we target in the future, which would materially and adversely affect our business and financial results and the trading price of our common stock.***

During most recent years, we have experienced a high rate of growth in our business and revenues and our operations have been profitable on an annual basis. In future years, we expect and target continued growth in our revenues, expansion in our business operations and profitability in our financial results. However, we may not be able to continue to grow our revenues, margins and income or to meet the business and financial results we expect or target, and we may incur losses in the future, due to one or more of the factors listed in this item or discussed elsewhere in this report. In addition, even if our revenues increase and our operations are profitable in any future periods, we may not be able to grow our revenues and income or to sustain such growth and profitability in subsequent future periods. Also, even if we are successful at growing our business and revenues we might not be able to operate on a profitable basis, due to costs we incur in connection with the growth and expansion of our existing businesses, products and services and in connection with acquisitions and start-up time for new businesses, products and services, and as a result of other overhead and operating expenses and capital expenditures we may incur from time to time in operating our business. As a result, there is no assurance that our revenues will increase or that we will be profitable in any particular future period, and there is no assurance that our future margins will be at or above current levels. If our future growth rates, revenues and margins do not meet our expectations, or if our operating expenses are higher than we anticipate, then our revenues could decline or we could incur losses or both, and our business, our results of operations and the trading price of our common stock would be materially and adversely affected.

***Ongoing adverse economic conditions, including weak or deteriorating business and market conditions and volatile and uncertain financial and capital markets, could materially and adversely affect our business and financial results in future periods.***

The United States and world economies continue to suffer from uncertainty, volatility, disruption and other adverse conditions, and those conditions continue to adversely impact the business community and the financial markets. There is no assurance when or the extent to which these economic and business conditions will improve in the future. These adverse economic and financial market conditions may negatively affect our customers and our markets, and thus negatively impact our business and results of operations. For example, weak market conditions could extend the length of our sales cycle and causing potential customers to delay, defer or decline to make purchases of our products and services due to uncertainties surrounding the future performance of their businesses, limitations on their capital expenditures due to internal budget constraints, the inability to obtain financing in the capital markets, and the adverse effects of the economy on their business and financial condition. As a result, if economic and financial market conditions continue to be weak or even deteriorate, then our business, financial condition and results of operations, including our ability to grow and expand our business and operations, could be materially and adversely affected.

***Our operating results can fluctuate significantly from period to period, which makes our operating results difficult to predict and can cause our operating results in any particular period to be less than comparable periods and expectations from time to time.***

Our operating results have fluctuated significantly from quarter-to-quarter, period-to-period and year-to-year during our operating history and are likely to continue to fluctuate in the future due to a variety of factors, many of which are outside of our control. Factors that affect our operating results include those set forth in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Uncertainties, Trends and Risks that can cause Fluctuations in our Operating Results.

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Because we have little or no control over many of these factors, our operating results are difficult to predict. Any adverse change in any of these factors could negatively affect our business and results of operations.

Our revenues, net income and other operating results are heavily dependent upon the size and timing of customer orders and projects, and the timing of the completion of those projects. The timing of our receipt of large individual orders, and of project completion, is difficult for us to predict. Because our operating expenses are based on anticipated revenues over the mid- and long-term and because a high percentage of our operating expenses are relatively fixed, a shortfall or delay in recognizing revenues can cause our operating results to vary significantly from quarter-to-quarter and can result in significant operating losses or declines in profit margins in any particular quarter. If our revenues fall below our expectations in any particular quarter, we may not be able, or it may not be prudent for us, to reduce our expenses rapidly in response to the revenue shortfall, which can result in us suffering significant operating losses or declines in profit margins in that quarter.

As we develop new lines of business, our revenues and costs will fluctuate because generally new businesses require start-up expenses and revenues need time to develop, and these start-up timing issues can result in losses in early periods in new businesses if even they later become financially successful. Another factor that could cause material fluctuations in our quarterly results is an increase in recurring, as opposed to project-based, sources of revenue we generate for our Distributed Generation and Utility Infrastructure projects. To date, the majority of our revenues have consisted of project-based Distributed Generation, Solar Energy and Utility Infrastructure revenues along with sales of LED lighting products, which are recognized as the sales occur or as the projects are completed. Recurring revenue projects, compared to project-based sales, are generally more profitable over time, and growth in this business model can result in delayed recognition of revenue and net income, especially in the short-term. Likewise, changes in the mix of higher versus lower margin revenues can also cause significant fluctuations in our operating results, such as the effect of a higher proportion in any period of lower-margin Solar Energy projects, which impact can adversely affect our overall margins and income.

Due to these factors and the other risks discussed in this report, you should not rely on quarter-to-quarter, period-to-period or year-to-year comparisons of our results of operations as an indication of our future performance. Quarterly, period and annual comparisons of our operating results are not necessarily meaningful or indicative of future performance. As a result, it is likely that, from time to time, our results of operations or our revenue backlog could fall below historical levels or the expectations of public market analysts and investors, which could cause the trading price of our common stock to decline significantly.

***We may incur liabilities or suffer other significant adverse financial or reputational consequences, including the abrupt and immediate loss of revenues and income from the loss of business, relating to occupational health and safety matters and other accident and safety risks and hazards that are inherent to our operations.***

Portions of our operations are subject to many hazards and risks inherent in the servicing and operation of electrical power lines, including electrocutions, fires, mechanical failures, weather-related incidents, cave-ins, heavy equipment operation and transportation accidents. For example, we face risks related to the manufacture, installation, sale, servicing and operation of electrical equipment such as our Distributed Generation system equipment and our Utility Infrastructure construction, maintenance and service work, including electric shocks, falls and other physical hazards inherent in working with electrical equipment. These hazards and risks could result in personal injuries, loss of life, environmental damage, severe damage to or destruction of property and equipment and other consequential damages, some of which could occur for uninsurable or uninsured risks or could exceed our insurance coverage, and could lead to the suspension of certain of our operations, large damage claims, damage to our safety reputation, loss of business and, in extreme cases, criminal liability.

While we have invested, and will continue to invest, substantial resources in our occupational health and safety programs, our industry involves a high degree of operational risk and there can be no assurance that we will avoid significant liability exposure. Although we have taken what we believe are appropriate precautions, we have suffered accidents in the past and will likely suffer additional accidents in the future. In addition, the risks inherent in our business are such that we cannot assure you that we will be able to maintain adequate insurance in the future at reasonable rates. Our safety record is an important consideration for many of our customers. If our safety record does not meet the standards of our customers or deteriorates or if we were to suffer substantial penalties or criminal prosecution for violation of health and safety regulations, our customers could cancel our existing projects and relationships or not award us future business. Therefore, the occurrence of a significant accident, or of another risk, event or hazard, which is not fully covered by insurance, could materially and adversely affect our business and financial results. Even if fully covered by insurance, one or more accidents or other safety risks or hazards could materially and adversely affect our business due to the impact on our reputation for safety and the potential loss of

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business, revenues and income from customers. For example, if our safety performance and safety record do not meet the standards of our utility customers, we could be abruptly and immediately released from our work assignments with those utilities and from other utilities, and we could lose the opportunity to obtain additional or new work from those utilities, which could materially and adversely affect our revenues, net income and cash flows.

***We have been named as a defendant in a purported securities class action litigation and as a nominal defendant in a shareholder derivative action, and we could be named in additional related litigation, all of which may require significant management time and attention, and result in significant legal expenses and may result in an unfavorable outcome, which could have a material adverse effect on our business, operating results and financial condition.***

On May 22, 2014, a putative securities class action lawsuit was filed against us and certain of our executive officers in the United States District Court for the Eastern District of North Carolina. Subsequently, in May and in July 2014, two additional purported securities class action lawsuits were filed against the same defendants in the United States District Courts, one in the Eastern District of North Carolina and the other in the Western District of North Carolina. On October 10, 2014, these lawsuits were consolidated in the United States District Court for the Eastern District of North Carolina, and a lead plaintiff was appointed. As consolidated, the lawsuit was filed on behalf of all persons or entities that purchased our common stock during a purported class period from August 8, 2013 through May 7, 2014, which is the longer of the two different purported class periods used in the pre-consolidation lawsuits. A consolidated amended complaint was filed on December 29, 2014. The action alleges that certain statements made by the defendants during the class period violated federal securities laws and seeks damages in an unspecified amount.

We filed a motion to dismiss the amended complaint on February 26, 2015, which the court granted on September 15, 2015, with leave for the plaintiff to file an amended complaint. On October 16, 2015, the plaintiff filed a second amended consolidated class action complaint, with similar allegations over the same class period. On November 23, 2015, we filed a motion to dismiss the second amended complaint, and the briefing on that motion concluded on February 5, 2016. We cannot provide any assurance as to when the court will rule on our motion to dismiss the second amended complaint or whether our motion will be granted, and even if granted whether the complaint will be dismissed with prejudice or appealed.

On August 15, 2014, a shareholder derivative complaint was filed against certain of our executive officers and each of our directors during the class period in the United States District Court for the Eastern District of North Carolina. The complaint alleges breach of fiduciary duty, waste of corporate assets and unjust enrichment by the named officers and directors in connection with substantially the same events as set forth in the class action lawsuit, seeking damages in an unspecified amount. On November 26, 2014, based on mutual agreement of the parties to the lawsuit, the court ordered that proceedings under the complaint be stayed until resolution of the class action litigation.

While we believe that we have substantial legal and factual defenses to the claims in the class action and we are pursuing these defenses vigorously, the outcome of this litigation is difficult to predict and quantify and the defense against such claims could be costly. In addition, we have various insurance policies related to the risks associated with our business, including directors and officers liability insurance policies. However, there is no assurance that we will be successful in our defense of the pending securities class action, and there is no assurance that our insurance coverage will be sufficient or that our insurance carriers will cover all claims in that litigation. If we are not successful in our defense of the claims asserted in the securities class action and those claims are not covered by insurance or exceed our insurance coverage, we may have to pay damage awards, indemnify our officers and directors from damage awards that may be entered against them and pay the costs and expenses incurred in defense of, or in any settlement of, such claims.



While we are only a nominal defendant in the shareholder derivative litigation, we could be obligated to indemnify and/or to pay an advancement of fees and costs incurred by our officers and directors in their defense of the derivative litigation.

Any such payments or settlement arrangements in these current lawsuits or related litigation or proceedings could be significant and have a material adverse effect on our business, financial condition, results of operations, or cash flows if the claims are not covered by our insurance carriers or if damages exceed the limits of our insurance coverage. Furthermore, regardless of the outcome of these claims, defending the litigation itself could result in substantial costs and divert management's attention and resources, which could have a material adverse effect on our business, operating results, financial condition and ability to finance our operations.

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*The SEC is conducting an informal inquiry that currently appears to be focused on our segment reporting but may be broader in scope, and this inquiry may require significant management time and attention and result in significant legal expenses, could be further expanded and could result in an unfavorable outcome, which could have an adverse effect on us.*

The SEC is conducting an informal inquiry that currently appears to be focused on our interpretation and application of ASC 280, Segment Reporting, in regards to our identification of operating and reportable segments since 2012, but may be broader in scope. We are cooperating with the SEC in this matter, including consultation with the Office of Chief Accountant of the SEC, and in connection therewith have reported on our re-assessment of our segment reporting in fiscal years 2012-2014 in Item 9A Controls and Procedures . There is no assurance that the scope of this inquiry is limited to segment reporting. In addition, the outcome of this inquiry could be unfavorable to us and adversely affect our business, financial condition or operating results. Furthermore, regardless of the outcome of this inquiry, defending the inquiry itself could result in substantial costs and divert management's attention and resources, which could have an adverse effect on our business, financial condition or operating results.

*We have entered into EPC contracts with a utility under which we are acting as the general contractor in connection with the installations of three utility-scale solar power systems, and these projects constitute a material amount of our revenues in 2015 and our current revenue backlog and we expect will constitute a material amount of our revenues in 2016. We are subject to a variety of risks associated with the execution of these large projects, including but not limited to potential termination of the most recent project, potential damages under the contracts if we do not deliver quality systems on time, and performance bonds that guarantee the performance of our obligations under the contracts, any of which could have a material adverse effect on our business and results of operations.*

In 2012, we acquired our distributed solar energy business, which is operated by PowerSecure Solar. Because our solar energy capability was acquired relatively recently, we have limited experience on which to base our prospects and anticipated results of operations.

In July 2014, we entered into two engineering, procurement and construction contracts with a utility customer, pursuant to which we will act as the general contractor in connection with the installation of two solar power distributed energy systems with a total project value of \$120 million. In July 2015, we entered into a third contract with the utility, which had an original project value of \$85 million, which we anticipate will be terminated in its entirety. Because of the size, scope, and strict project timelines, we have taken on significant responsibility and risks related to project completion.

The contracts for these utility-scale solar projects contain customary covenants, representations, warranties and indemnities to the utility customer. They also include terms requiring us to provide indemnification to the utility under certain circumstances, as well as containing provisions requiring us to pay the utility liquidated damages upon the occurrence of certain events, including delays in achieving pre-determined substantial completion, and placed in service dates, and the level of energy performance of the project. The aggregate limit on our liability to the utility for liquidated damages due to such delays under the contracts is approximately \$24 million to approximately \$34 million per contract, and \$82 million in total, although those amounts will be reduced if the July 2015 project is terminated entirely as anticipated. We could have additional liability to the utility for any breaches of our covenants, representations or warranties in addition to these potential liquidated damages. The contracts also contain typical events of default, including material breaches of the contracts after notice and cure periods and defaults relating to bonding and surety failures. We provide a warranty on each project for three years after substantial completion of that project.

The solar projects under each contract were subject to certain conditions that were required to be met within 120 days of the date of either contract. Those conditions have been timely met, and the utility has issued a notice to proceed under the EPC Contracts, ending the prior rights to terminate the EPC Contracts. The scheduled substantial completion and placed in service dates of each contract are no later than August 1, 2016 and December 31, 2016, respectively.

In addition, the solar projects covered by these contracts are subject to bonding and surety requirements. In connection with these requirements, we have obtained bonding and surety arrangements in the amount of approximately \$205 million to support our performance obligations under the contracts to our utility customer. The solar panel manufacturer has provided a supply bond to us in the amount of approximately \$75.3 million that backstops the on-time delivery of solar panels.

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We depend on third-party solar panel manufacturers and suppliers to provide the solar panels for these projects, and any failure or delay to obtain sufficient quality solar panels could significantly affect our performance, lead to construction delays, create liquidated damages for project delays and damage our customer relationships. If the operations of our panel supplier are disrupted or if its financial stability becomes impaired, or if it becomes unable or unwilling to devote capacity to our solar panels in a timely manner, then we might be unable to complete the projects on a timely basis. While the panel supplier has bonded its obligations, it may not be possible for us to obtain adequate solar panels from an alternate supplier in a timely manner or without incurring significantly higher costs.

In addition, these solar projects are the largest we have been awarded to date, having generated a significant portion of our revenues in 2015 and being expected to generate a significant portion of our revenues in 2016. These projects create concentrated operating and financial risks, and we do not control all events that could affect our performance or the timing of these projects. We may not recognize revenue as anticipated in a given reporting period because a project is delayed or if construction, operational challenges arise, or if the timing of such a project unexpectedly changes for other reasons. We may incur large liquidated damages if we fail to execute the projects by a specified time, or incur other damages due to performance issues or contractual breaches. Our performance on this scale is untested. Moreover, these projects are subject to deferral or termination by the utility customer, under certain circumstances, upon which we would only receive compensation for our work performance and costs incurred. In addition, since these are fixed price projects, we would be adversely affected by any increase in costs, whether due to cost-overruns, construction delays, increased supply costs, adverse weather conditions, or other unanticipated factors. Any decrease in revenues below expectations from these projects, payment of liquidated damages, or increase in project expenses could have a material adverse effect on our business, results of operations and financial condition. This is particularly true because we expect the gross margins on these projects to be significantly less than our traditional solar gross margins. This means that we have less room for error, and the impact of issues with the execution of these projects could be magnified in our results of operations.

We were previously notified by Georgia Power that the size and scope of the solar project contemplated by the July 2015 EPC Contract may be reduced, due to a change in the utility customer's requirements, or could be terminated. Accordingly, we have been in discussions with Georgia Power on the status of the project and currently believe that the EPC Contract may be terminated in its entirety. As of the date of this report, the July 2015 EPC Contract has not been amended, restated or terminated, and the underlying solar project has not been definitively modified. In November 2015, based on the information available as of that time, we estimated that the associated revenues from the project would be reduced from the initial \$85 million project size to approximately \$60 million. Based on more recent information we have received, we currently estimate that no revenue will be generated by the July 2015 EPC Contract.

Our success in developing and growing a profitable distributed solar energy business depends in large part on our ability to anticipate and effectively manage these and other risks and uncertainties, many of which are outside of our control. Any of these risks could materially and adversely affect our solar operations and business and, accordingly, our expected future growth and results of operations.

***Because our business depends, in part, on conditions in the oil and natural gas industry, such as oil and natural gas prices, continued weakness in that industry and volatility and declines in oil and natural gas prices may impact the demand for some of our products and services and our ability to collect accounts receivables from customers in that industry, which could materially and adversely impact our business and financial results.***

Prices for oil and natural gas historically have been extremely volatile and have reacted to changes in the supply of, and demand for, oil and natural gas. These include changes resulting from, among other things, the ability of the Organization of Petroleum Exporting Countries to support oil prices, domestic and worldwide economic conditions

and demand, and political instability in oil-producing countries. Recently, the price of oil has been under heavy pressure and declined significantly, and faced turbulent and rapid price movement, mostly to the downside. We depend in part on our customers' willingness to make expenditures that are intended to reduce their energy costs. Therefore, the recent declines and weakness in oil and natural gas prices, or the perception by our customers that oil and natural gas prices will continue to be weak or continue to decrease in the future, could result in a reduction in purchases of our products and services. Our customers' willingness to purchase our products and services, and the price of oil and natural gas, depends largely upon prevailing industry conditions that are influenced by numerous factors over which we have no control.

In addition, some of our customers are in the oil and gas business. Continuing weakness in the energy markets could impair the ability of our oil and natural gas customers to remain solvent and continue paying for the products

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we have delivered and the services we have performed, which could in turn impair the collectability of our accounts receivables. Accordingly, continued weakness or further reductions in energy prices could cause a decline in the demand for our products and services, adversely affect the prices that we can charge for our products and services or impact the collectability of our accounts receivable, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

***We may require a substantial amount of additional funds to finance our capital requirements and the growth of our business, and we may not be able to generate or raise a sufficient amount of funds, or be able to do so on terms favorable to us and our stockholders, or at all.***

Although we believe we have adequate liquidity and capital resources to fund our operations internally for the near-term, due to our cash flow from operations as well as the availability of revolving and term loans under our credit facility, over time we may need to obtain additional capital to fund our capital obligations and to finance the continued growth and expansion of our business. For example, we may need substantial capital to finance the development and growth of our recurring revenue projects, which are capital intensive. In addition, each of our business segments have experienced high growth rates that have required, and we anticipate will continue to require, additional funds to finance working capital needs due to long payment cycles, as well as investments in personnel, operational equipment and other resources. Moreover, from time to time as part of our business plan, we evaluate potential acquisitions of businesses and technologies, such as the recent acquisitions discussed elsewhere in this report. Also, unanticipated events, and other events over which we have no control, could increase our expenses or decrease our ability to generate revenues from product and service sales, necessitating additional capital. We continually evaluate our cash flow requirements as well as our opportunity to raise additional capital in order to improve our financial position. In addition, we continually evaluate opportunities to optimize the availability, cost and terms of our debt facilities. We cannot provide any assurance that we will be able to maintain our current credit facility, raise additional capital or replace our current credit facility when needed or desired, or that the terms of any such financing will be favorable to us and our stockholders.

Our credit facility, which commenced in 2007 and has been amended and restated, consists of a revolving credit line of \$40 million and two term loans. The proceeds under our credit facility are available for our capital requirements subject to our meeting certain financial and operating covenants. In October 2015, the credit facility was amended to increase the revolving portion of our credit facility to \$40 million, subject to certain financial covenants and ratios, and to extend the maturity date of both the revolving loans and both terms loans to June 2020. On February 23, 2016, the lenders under our credit facility provided a waiver of any event of default arising from the execution of the Merger Agreement (but not the consummation of the Merger) under credit agreement with our lenders.

As of March 14, 2016, an aggregate balance of approximately was \$17.8 million was outstanding under the two term loans and \$25 million was outstanding under the \$40 million revolving portion of our credit facility, of which approximately \$36 million was available to borrow within the limits of our financial covenants. In addition, there were no outstanding letters of credit reducing the amount available to borrow under the revolving portion of the credit facility at March 14, 2016.

Our obligations under the credit facility are secured by a first priority security interest in substantially all of the assets of our operating subsidiaries, which have guaranteed the credit facility. Any breach of the covenants in the credit facility could result in a default under the credit facility, and lead to an acceleration of the payment of all outstanding debt owed, which could materially and adversely affect our financial condition. In such case, we would seek an amendment, or a waiver of any breach of any term of our credit agreement, or consider other options, such as raising capital through an equity issuance to pay down debt, which could be dilutive to stockholders. There can be no assurance that our lenders would agree to any such amendment or waiver. In the event we obtain such an amendment

or waiver under our credit agreement, we would likely incur additional fees and higher interest expense.

Moreover, we could be adversely affected by the failure of any of our lenders to fulfill their commitments under our credit facility, which risk would be primarily due to potentially difficult conditions in the financial markets and banking industry. Our credit facility is provided by a syndicate of financial institutions, with each institution agreeing severally, and not jointly, to make revolving credit loans to us in accordance with the terms of the credit agreement. If any of these financial institutions were to default on its obligation to fund its commitment, the portion of the credit facility provided by such defaulting financial institution would not be available to us.

We may seek to raise any needed or desired additional capital from the proceeds of public or private equity or debt offerings at the holding company level or at the subsidiary level or both, through asset or business sales, from

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traditional credit financings or from other financing sources. Our ability to obtain additional capital when needed or desired will depend on many factors, including market conditions, our operating performance and investor sentiment, and thus cannot be assured. In addition, depending on the structure and amount, raising capital could require the consent of our lenders. Even if we are able to raise additional capital, the terms of any financing could be adverse to the interests of our stockholders. For example, the terms of a debt financing could include covenants that restrict our ability to operate our business or to expand our operations, while the terms of an equity financing, involving the issuance of capital stock or of securities convertible into capital stock, could dilute the percentage ownership interests of our stockholders, and the new capital stock or other new securities could have rights, preferences or privileges senior to those of our current stockholders.

We cannot provide any assurance that sufficient additional funds will be available to us when needed or desired or that, if available, such funds can be obtained on terms favorable to us and our stockholders and acceptable to our lending group, if its consent is required. Our inability to obtain sufficient additional capital on a timely basis on favorable terms could have a material adverse effect on our business, financial condition and results of operations.

***Because a portion of our business depends on our ability to provide surety bonds, we may not be able to compete for or work on certain projects if we are not able to maintain sufficient bonding capacity.***

In the ordinary course of business, we are required by certain customers to post surety or performance bonds or letters of credit in connection with services that we provide to them. These bonds and letters of credit provide a guarantee to the customer that we will perform under the terms of a contract and that we will pay subcontractors and vendors. If we fail to perform under a contract or to pay subcontractors and vendors, the customer may demand that the surety, in the case of a performance bond, or our lenders, in the case of a letter of credit, make payments or provide services under the bond. We must reimburse the surety or our lenders for any expenses or outlays they incur. As of December 31, 2015, we had approximately \$451 million in surety bonds outstanding. Based upon the current status of our contracts and projects, we estimate our exposure on these surety bonds was approximately \$196 million at December 31, 2015.

Sureties issue or continue bonds on a project-by-project basis and can decline to issue bonds at any time or require the posting of additional collateral as a condition to issuing or renewing any bonds. Current or future market conditions, including the current state of the construction industry, the bonding market and general lending activity, as well as ultimately our performance on contracts, could have a negative effect on surety providers. These market conditions, as well as changes in our surety providers' assessment of our operating and financial risk, could also cause our surety providers to decline to issue or renew, or substantially reduce the amount of, bonds for our work and could increase our bonding costs. These actions could be taken on short notice. If our surety providers were to limit or eliminate our access to bonding, our alternatives would include seeking bonding capacity from other sureties, finding more business that does not require bonds and posting other forms of collateral for project performance, such as letters of credit or cash. We may be unable to secure these alternatives in a timely manner, on acceptable terms, or at all. Accordingly, if we were to experience an interruption or reduction in our availability of bonding capacity, we may be unable to compete for or work on certain projects and such interruption or reduction could have a material adverse effect on our business, financial condition and results of operations. In addition, if we were required to make any reimbursements to our sureties for bond-related costs, we could experience a material adverse effect on our financial condition and results of operations.

***Because we are dependent upon the utility industry for a large portion of our current and future revenues, reductions or deferrals of purchases of our products and services by utilities or their customers could materially and adversely affect our business.***



One of the central aspects of our marketing approach involves partnering with utilities and selling our products and services to their large commercial, institutional, federal and industrial customers. We have generated a significant portion of our revenues using this approach. However, the purchasing patterns of these customers are cyclical and generally characterized by long budgeting, purchasing and regulatory processes. These customers typically issue requests for quotes and proposals, establish committees to evaluate the purchase proposals, review different technical options with vendors, analyze performance and cost-benefit justifications and perform a regulatory review, in addition to applying budgetary approval processes and operational and financial justifications. In addition, utilities and their customers may defer purchases of our products and services if the utilities reduce capital expenditures as the result of difficult economic and financial market conditions, mergers and acquisitions, pending or unfavorable regulatory decisions, poor revenues due to weather conditions or rising interest rates, among other factors. These unfavorable conditions could reduce the demand for our products and services and materially

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and adversely affect our business. In addition, changes in utility spending and the demand by utilities for our services can be immediate and abrupt, and a reduction in demand for our services by utilities could cause us to have equipment and personnel that are not being utilized, significantly affecting our revenue and profits.

***Restrictions imposed on us by the terms of our credit facility limit how we conduct our business and our ability to raise additional capital.***

The terms of our credit facility contain financial and operating covenants that place restrictions on our activities and limit the discretion of our management. These covenants place significant restrictions on our ability to:

incur additional indebtedness;

allow our cash position to fall below certain limits;

create liens or other encumbrances;

issue or redeem our securities;

make dividend payments, stock repurchases and investments;

incur capital expenditures above certain limits;

incur leasing obligations above certain limits;

amend our charter documents;

sell or otherwise dispose of our or our subsidiaries' stock or assets;

liquidate or dissolve;

make certain types of acquisitions above specified limits; or

reorganize, recapitalize or engage in a similar business transaction.

Any future financing arrangements will likely contain covenants that are similar to, and could be more restrictive than, those under our current credit facility. As a result of these restrictions, we may be:

limited in how we conduct our business;

unable to raise additional capital, through debt or equity financings, when needed for our operations and growth; and

unable to compete effectively, make desired acquisitions or to take advantage of new business opportunities. The need to comply with the terms of our debt obligations may also limit our ability to obtain additional financing and our flexibility in planning for or reacting to changes in our business. If, as a result of these covenants, we are unable to pursue a favorable transaction or course of action or to respond to an unfavorable event, condition or circumstance, then our business could be materially and adversely affected.

***From time to time, a large portion of our revenues and operating results can be driven by significant purchases by a concentrated number of customers, and if we do not continue to receive additional significant purchase commitments in the future from those or other customers, our revenues and operating results could be adversely affected.***

From time to time, we have a concentrated number of customers that account for a large portion of our consolidated revenues during a year, and because the majority of our revenues are project-based, we receive our revenues from these orders over a limited period of time. For example, in 2015 a significant portion of our revenues were, and in 2016 a significant portion of our revenues are expected to be, generated from a large utility customer under two utility-scale solar projects, as well as from another large utility customer. In addition, our successful penetration of the data center markets for our Distributed Generation solutions has led to customer concentration in that industry. As a result, we are continually replacing revenue from current customers and projects with new revenue from existing customers or from new customers and projects, while at the same time working to grow our revenues and our business. See Item 1. Business Customers above. While we have been diversifying our products and services, our markets and our customer base in order to reduce our dependence on any one or small group of customers in the future, there is no assurance we will be successful in diversifying our business or obtaining additional significant purchase commitments from other customers to replace work that has been completed. If we are unable to obtain additional significant purchase orders in the future and to otherwise diversify and expand our customer base, our revenues and net income in future periods could be adversely affected.

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Our success is continually dependent on our ability to develop new relationships and to maintain beneficial relationships with our current utility partners and with significant new customers and to generate additional project-based revenues, and also recurring revenues, from those relationships. We cannot provide any assurance that we will be able to attract additional large customer orders in the future to replace revenues from large customer orders in prior years, or that our existing customers will continue to purchase our products and services in future years in the same amounts as in prior years. Our business and operating results would be adversely affected by:

the loss of, or the completion of our work on orders from, one or more large customers;

any cancellation of orders by, or any reduction or delay in sales to, these customers, including actual customer purchases being less than originally expected when we received the project or sales awards;

the failure of large purchase commitments to be renewed or to recur, and the failure of us to develop new business to replace orders that have been executed and recognized;

delays in timing of future projects with existing and new customers;

our inability to successfully develop relationships with additional customers; or

future price concessions that we may have to make to these customers.

***We do not have long-term commitments for significant revenues with most of our customers and may be unable to retain existing customers, attract new customers or replace departing customers with new customers that can provide comparable revenues and profits.***

Because we generally do not obtain firm, long-term volume purchase commitments from our customers, most of our contracts and commitments from our customers are short-term and project-based. As long as most of our revenues continue to primarily be recognized on a project by project basis, we remain dependent upon securing new contracts in the future in order to sustain and grow our revenues. Accordingly, there is no assurance that our revenues and business will grow in the future. Our failure to maintain and expand our customer relationships could materially and adversely affect our business and results of operations.

***Because a significant portion of our revenue backlog consists of non-contractual orders that can be deferred, reduced or cancelled by the customers, and because the calculation of our backlog involves the use of estimates, our revenue backlog may not be fully recognized or may not result in profits.***

A significant portion of our revenue backlog is comprised of master contracts, product contracts and orders that are subject to cancellation without penalty or are otherwise subject to delay, deferral or reduction from time to time. For example, the backlog contained in this report does not include any revenue relating to a July 2015 solar project that previously was \$85 million in size, based on our current best estimate that such solar project will be terminated in its entirety. In addition, the determination of our backlog involves the use of estimates of the revenue that will be realized from certain customers we are serving under master contract relationships.

Reductions in our backlog of sales could significantly reduce the revenue and profit we actually receive from orders included in our backlog. Because we often purchase inventory and equipment, and expend labor and other resources, on these orders, especially large orders, in advance of their delivery and completion, such delays or cancellations put us at risk of incurring expenses while the associated revenues may be deferred, reduced or even lost. In the event of a project cancellation, we may be reimbursed for certain costs but typically have no contractual right to the total amount of revenues reflected in our backlog. In addition, projects may remain in backlog for extended periods of time. All of these uncertainties are heightened in times of adverse economic conditions due to their impact on our customers spending. Consequently, we cannot assure you that our estimates of backlog are accurate or that we will be able to realize all of the revenues in our backlog. Accordingly, if a significant amount of orders are deferred, reduced or cancelled, then our financial condition and results of operations, including our revenues, gross margins, net income and cash flow, could be materially and adversely affected.

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*Our current and anticipated future international activities subject us to many legal, business, political and economic risks and uncertainties that could adversely affect our operating results if they materialize.*

We acquire certain inventory, including for our Distributed Generation and Solar Energy projects and for our LED lighting products and our Distributed Generation products, in international markets. In addition, we have been increasing our focus on marketing and selling some of our products and services in international markets. For example, we have Energy Efficiency Services projects in Canada. Also, we have entered into a management services arrangement with Bahamas Power & Light, providing our energy management services to BP&L in connection with the Bahamas electricity market. Our strategy for future growth includes the penetration of foreign markets for our products and services. This expansion will require significant management attention and financial resources to establish additional offices, hire additional personnel, localize and market products and services in foreign markets and develop relationships with international service providers.

We have very limited experience in international operations, including developing localized versions of our products and services and developing relationships with international service providers. We cannot provide any assurance that we will be successful in developing or expanding international operations, or that revenues from international operations will be sufficient to offset these additional costs. If revenues from international operations are not adequate to offset the additional expense from expanding these international operations, our business could be materially and adversely affected.

In addition, international operations entail a variety of other risks, including:

compliance with, or unexpected changes in, numerous legislative, regulatory or market requirements of foreign countries;

poor quality or protracted production or shipping cycles;

currency rate and foreign exchange fluctuations;

longer payment cycles and greater difficulty in accounts receivable collection;

difficulties in developing, staffing and simultaneously managing foreign operations as a result of distance, language and cultural differences;

laws and business practices that favor local competitors or prohibit foreign ownership of certain businesses;

significant taxes or other burdens of complying with a variety of foreign laws; and

geopolitical risks, such as political, social and economic instability and changes in diplomatic and trade relations.

Any of these factors could adversely affect any international operations in which we engage and result in lower revenue or higher expenses than we expect and could significantly affect our results of operations and financial condition.

***Our ability to grow our revenues and business and to operate profitably in the future is dependent, in part, upon on our ability to execute the contract awards we receive from our customers with operational efficiency and on a profitable basis, and the failure to do so could materially and adversely affect our business, financial results and prospects.***

Our customer relationships are extremely important to us and to our success, and the contract awards we obtain from our customers are the key to our ability to grow on a profitable basis in the future. However, the key to our success is not only to win contract awards from our customers but to perform on the projects awarded at the highest level. We emphasize operational efficiency and profitability in all our business units, in order to execute on our projects in a manner that both increases value to our customers generating customer satisfaction and future business and results in sustainable improvements in our financial results and future prospects and a high reputation for quality. If we fail to execute on our contract awards and projects with operational efficiency and on a profitable basis, then our business, results of operations and future prospects could be materially and adversely affected.

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*The quality and performance of our products are, in part, dependent on the quality of their component parts that we obtain from various suppliers as well as the specific design and purpose for which the parts are incorporated into our systems, which makes us susceptible to performance issues that arise from time to time that could materially and adversely affect our business, our financial results and our reputation.*

Our success depends, in large part, upon our ability to provide quality, reliable and productive products, services and solutions to our customers. From time to time, in the ordinary course of business we encounter issues with component parts that affect the performance of our distributed generation systems, switchgear systems, utility infrastructure products, engines, generators, alternators, breakers, fuel systems, boilers, chillers, LED and other lighting products, electrical circuit boards, power drivers, photovoltaic energy systems, inverters, 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, or may invalidate warranties or performance certifications.

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 a track record of performance does not exist or is difficult to ascertain. For example, the quality and performance of our PowerBlock, which is our proprietary generator system used in many of our Distributed Generation projects, is dependent upon the quality the engines we acquire from the manufacturer. Similarly, the quality and performance of our LED lighting products is dependent upon the quality of their component parts, many of which we acquire from other manufacturers and suppliers. Likewise, the success of our solar projects is dependent upon the quality and performance of key component solar parts such as solar panels, which will be a significant factor in the success of our recent utility-scale solar projects.

From time to time we encounter situations in which the responsibility for the performance issues is unclear or is difficult to ascertain. Because of our strong focus on customer satisfaction, we often accept and pay the cost of repairs in excess of our contractual obligations. Additionally, the outcome of any performance disputes or 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. As a result, 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 5-10% 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.

We have experienced performance issues with two types of component parts, in particular, which we have made progress in correcting or mitigating, but which continue to represent operational and financial risks to our business. One issue involves a component we incorporated into a Distributed Generation system configuration installed in many of the systems deployed for our customers, which has been deemed to invalidate the generator manufacturer's warranty and may cause other customer issues and costs. Another issue involves generators from a certain supplier that 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 successful operation. In both of these matters, we have been actively working to correct and resolve the performance issues and have made progress in mitigating their risk, but the risk is not eliminated.

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Given that we continue to have risk related to these performance issues, and the inherent uncertainty in assessing and quantifying the costs and certainty regarding their resolution, we are unable to estimate the potential negative impacts from these two particular items, if any, in addition to other component part performance issues discussed above. In addition, we have not recorded any specific adjustment to our warranty reserve for these particular performance issues, other than our regular reserves for minor repairs, as the estimated cost, if any, of fulfilling our obligations for these matters within a possible range of outcomes is not determinable as of this date.

***Many of our products and services, especially in the DG business, experience long and variable sales cycles, which could have a negative impact on our results of operations for any given quarter or year and on our ability to anticipate and plan for our future revenues.***

Purchases of our products and services, especially in our DG business, are usually significant financial investments for our customers and are used by our customers to address important and complex business needs. Customers generally consider a wide range of issues and alternatives before making a decision to purchase our products and services. Before customers commit to purchase our products, they often require a significant technical review, assessment of competitive products and approval at a number of management levels within their organization. The sales cycle may vary based on the industry in which the potential customer operates. Moreover, as we strive for larger sales projects and awards, especially in the DG business, both the length and the variability of the sales cycle typically increases. The length and variability of the sales cycle makes it difficult to predict whether particular sales commitments will be received in any given quarter, especially for larger DG projects. During the time our customers are evaluating our products and services, we may incur substantial sales and marketing and research and development expenses to customize our products to the customers' needs. We may also expend significant management efforts, increase manufacturing capacity, hire employees, purchase or lease equipment, order long-lead-time components or purchase significant amounts of inventory prior to receiving an order. Even after this evaluation process, a potential customer may not purchase our products. As a result, these long sales cycles may cause us to incur significant expenses without receiving revenue to offset those expenses, and as these sales cycles grow and become more variable, our results of operations and financial condition may be materially and adversely affected, especially in the short-term.

***We face intense competition in the markets for our products, services and technology, and if we cannot successfully compete in those markets, our business could be materially and adversely affected.***

The markets for our products, services and technology are intensely competitive and subject to rapidly changing technology, new competing products and services, frequent performance improvements and evolving industry standards. The markets for energy solutions are fragmented. We compete against both other third party providers of similar products and services, as well as our utility partners and customers sourcing those products and services on an in-house basis. We expect the intensity of competition to increase in the future because the growth potential and deregulatory environment of the energy market have attracted and are anticipated to continue to attract many new competitors, including new businesses as well as established businesses from different industries. As a result of increased competition, we may have to reduce the price of our products and services, and we may experience reduced gross margins and loss of market share, which could significantly reduce our future revenues and operating results.

Many of our existing competitors, as well as many potential new competitors, have longer operating histories, greater name recognition, larger customer bases and significantly greater financial, technical, marketing, manufacturing and other resources than we do. This may enable our competitors to respond more quickly to new or emerging technologies and changes in customer requirements or preferences and to devote greater resources to the development, promotion and sale of their products and services than we can. Our competitors may be able to undertake more extensive marketing campaigns, adopt more aggressive pricing policies and make more attractive offers to potential employees, customers, strategic partners and suppliers and vendors than we can. Our competitors may develop

products and services that are equal or superior to the products and services offered by us or that achieve greater market acceptance than our products do. In addition, current and potential competitors have established or may establish cooperative relationships among themselves or with third parties to improve their ability to address the needs of our existing and prospective customers. As a result, it is possible that new competitors may emerge and rapidly acquire significant market share or impede our ability to acquire market share in new markets. We cannot assure you that we will have the financial resources, technical expertise, portfolio of products and services or marketing and support capabilities to compete successfully in the future. Our inability to compete successfully or to timely respond to market demands or changes could have a material adverse effect on our business, conditions and results of operations.

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***Because our future success depends, in part, upon the success of our recurring revenue project business model, if we do not receive substantially all of the benefits anticipated by those projects or if one or more of the risks associated with those projects materializes, then our financial condition and results of operations could be materially and adversely affected.***

A growing amount of our revenues, cash flow and net income is generated by our recurring revenue projects, in which we install and own Distributed Generation systems and Utility Infrastructure and realize recurring revenues derived from regular fees paid by the customer to utilize these assets over a long-term contract, typically five to fifteen years. The revenues from these business arrangements include fixed fee contracts, variable fee contracts, utility or independent system operator program fees which may be fixed or variable, and fees which are dependent on the energy cost reductions realized by our customers. While to date recurring revenue projects have constituted only a modest portion of our revenue base, they are growing, and we expect and intend that they will represent a more significant portion of our revenues in the future. The success of these recurring revenue projects is dependent upon our ability to realize the revenues over the life of the contracts and on our ability to manage the costs of those projects. Accordingly, if we do not realize most of the revenues of these recurring revenue projects, or if the costs to operate or maintain these systems increase significantly, including the cost of fuel, or if one or more material risks related to these projects discussed below materializes, our business and operating results could be materially and adversely affected.

Under these recurring revenue projects, we derive recurring revenues from our customers. This recurring revenue stream enhances the size and dependability of our revenues, cash flow, gross margins and income over the long-term. However, the amount of anticipated recurring revenues and related gross margins and cash flows from these long-term projects are based on a number of assumptions and estimates, including those pertaining to customer demand, energy consumption, energy costs and savings, tariff structures, fuel cost, run time required to achieve the revenues, maintenance cost, our monitoring ability, the quality, reliability and availability of the associated equipment, our capital resources, and the initial and ongoing expenses of the projects. Changes in our estimates or assumptions causing us to fail to realize the benefits of these recurring revenue projects may result in the recurring revenues, gross margins on those revenues and cash flows we receive being substantially less than expected.

Moreover, these recurring revenue projects have certain risks associated with them, in addition to the risks associated with our traditional turn-key Distributed Generation sales, due to our continued ownership of the underlying equipment and the nature of the relationship we have with the customers under these projects. These risks of engaging in a recurring revenue project include the following:

disputes arising with the customer about the project that ultimately results in either the customer requiring us, or in us determining, to remove the equipment from the customer's site, which could result in a significant loss in revenues and cash flow until the equipment can be re-deployed in a new project or, if the equipment is not re-usable, a significant write-down of our assets;

the financial and operational health of the customer and the risk that the customer's electrical load is reduced, or the facility is abandoned or moved, which would reduce or eliminate the revenues expected from the arrangement and result in a portion of the cost of our system being unrecoverable;

our inability to receive the intended benefits from the project due to changes associated with the Distributed Generation model, such as due to changes in tariff structures or customer requirements;

our inability to receive recurring revenues from the project due to customer issues, such as deterioration in the customer's ability to pay our ongoing fees or a dispute with the customer delaying, deferring or reducing the project fees payable to us, or the closure of the customer's facility;

the failure of the equipment to properly function and to perform and deliver the intended benefits, which could result in claims by the customer for damages to its equipment, lost revenues and profits or safety issues and in attempts by the customer to cancel the contract related to the project or to refuse or to delay making payments in amounts we believe are due to us under those contracts;

new regulations, or changes in the interpretation of existing regulations, such as those pertaining to air emissions or those relating to the requirements and conditions for the ownership of power generation systems, that could render the project no longer economically viable, or technically obsolete, or legally impractical;

the costs of operating and maintaining the systems increase significantly, including fuel costs, and maintenance expenses, as well as the run time required to earn the revenues;

damages, payment delays and other issues due to issues with the performance of component parts;

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injuries to persons caused by problems or failures of equipment owned by us; and

environmental matters, such as fuel spills, requiring costly and time-consuming remediation efforts and potentially subjecting us to fines and penalties related to environmental requirements and regulations.

Accordingly, we cannot provide any assurance that we will realize substantially all the benefits that we expect, or that our business will not face some of the risks, including the risks discussed above, related to these recurring revenue projects. If we do not receive substantially all of the expected benefits, or if we face one or more significant risks, related to these recurring revenue projects, our financial condition and results of operations could be materially and adversely affected.

***Our ability to grow our revenues and business and to operate profitably in the future is dependent, in part, upon on our ability to generate increased revenues and profits in our Utility Infrastructure segment.***

Our growth rate in prior years was fueled, in part, by the growth of our Utility Infrastructure revenues, especially revenues from transmission and distribution construction and maintenance, including substation construction and maintenance, advanced metering and lighting installations, and storm restoration. As a key part of our corporate growth strategy, our future growth will depend on our ability to expand the scope of our utility relationships, customers and geographic service areas that we serve. This business is highly competitive and cyclical, and the storm restoration services are highly volatile and unpredictable. We have a significant amount of fixed costs associated with these operations, including personnel, vehicles, and equipment, and a loss of revenue from these services would significantly impact our profitability. In addition, in order to grow our profitability, we will need to provide services with enhanced margins and to manage our costs and expenses, such as fuel costs which are volatile and subject to unanticipated and uncontrollable increases that adversely affect our profitability. Moreover, in order for our Utility Infrastructure operations to grow profitably, we will need to continue our focus on improving our contract pricing and personnel and asset efficiencies in our UtilityServices business. If our revenues fail to continue to grow, or if the margins associated with those revenues decline, then our business and financial results could be materially and adversely affected.

***Our ability to generate future growth and profitability is dependent, in part, upon on our ability to capture a sufficient share of the anticipated growth in the LED lighting markets.***

Our future growth depends, in part, upon the increased adoption and growth of the market for LED lighting products, and our ability to capture a growing profitable share of this market, as well as our ability to successfully manage our potential growth of customer demand for our LED-based products. Although the LED lighting market has grown rapidly in recent years, adoption of LED lighting is still relatively new and limited, and LED lighting faces significant challenges before it is adopted on a widespread basis. In order to manage our growth and business strategy effectively, we must:

develop and market LED-based lighting products that are responsive to customer needs and that compete successfully in the marketplace;

secure adequate manufacturing facilities and equipment to meet anticipated customer demand, including successfully sourcing from cost-effective manufacturers, many of whom are located in Asia and other countries;

maintain a sufficient supply of raw materials to support our anticipated growth; and

invest in research and development, engineering, sales and marketing, technical support, distribution capabilities and administrative functions and successfully manage product lifecycles.

In addition, our future profitability in this area is dependent upon our ability to manage our costs and expenses, and we have taken recent actions in this business area to restructure and streamline our operations and reduce our cost structure, including our cost of sales and overheads and enhance our manufacturing efficiencies, in large part as a result of our acquisition of Solais and its management. However, while we have been focused on restructuring our costs and expenses in the near-term, over the long-term we expect to make investments to support our growth, and we may also have additional unexpected costs given the dynamic nature of the market. Additionally, such investments may take time to become fully operational and productive, and we also may not be able to expand quickly enough to serve market opportunities as they develop. There are also inherent execution risks in addressing our costs, especially in our production arrangements with Asian manufacturers, which could increase costs and reduce our operating results, including design and cost overruns, poor production process yields and

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reduced quality control. It is possible that we may incur some or all of these costs in the future as we continue to shift production to other contract manufacturers. If we fail to continue to manufacture our products in a cost-effective manner, then our business and financial results could be materially and adversely affected. In addition, if we fail to capture, on a profitable basis, a growing portion of the anticipated expanding LED-based lighting market, and then to manage such growth in our business, then our business and financial results could be materially and adversely affected.

***The adoption of, or changes in, government or industry policies, standards or regulations relating to the efficiency, performance or other aspects of LED lighting or changes in government or industry policies, standards or regulations that encourage or discourage the use of certain other lighting technologies, could impact the demand for our LED products.***

The adoption of, or changes in, government or industry policies, standards or regulations relating to the efficiency, performance or other aspects of LED lighting may impact the demand for our products. For example, certain government policies may favor certain LED lighting technologies, or other lighting technologies, which may or may not be consistent with our core technologies and strengths. Demand for our LED lighting products may also be impacted by changes in government or industry policies, standards or regulations that encourage or discourage the use of other lighting technologies. Future legislative or regulatory activity could have a negative impact on demand for our LED lighting products and thus an adverse effect on us.

***With the growth and emergence of our solar energy business, we face a variety of risks and uncertainties related to solar technologies and the industry generally, as well as to our solar business specifically, that could adversely affect our operating results if they materialize.***

In June 2012, we acquired our Solar Energy business, PowerSecure Solar. Accordingly, we have limited experience in the solar power business on which to base our prospects and anticipated results of operations, which are becoming an increasingly meaningful portion of our business and financial results. In our Solar Energy business, we face a number of risks including the following:

While the demand for solar installations is emerging and rapidly evolving, its future success is uncertain. If solar power technology proves unsuitable for widespread commercial deployment or if demand fails to develop sufficiently, we may not be able to generate enough revenues to achieve and sustain it as a profitable product line. The factors influencing the widespread adoption of solar power technology include cost-effectiveness, performance, and reliability; the availability of government subsidies and incentives; the desire of utilities and commercial, industrial, and institutional customers to invest in alternative green energy technology; fluctuations in economic and market conditions which impact the viability of conventional and non-solar alternative energy sources; and the willingness and ability of customers to make significant capital expenditures to purchase the products.

The reduction, elimination or expiration of rebates, government subsidies, tax credits and other financial incentives, renewable energy targets and other types of support for solar energy, or an increase in adverse public policies, could reduce demand or price levels, or both, for our solar business, because we believe that the near-term growth of the solar market depends in large part on the availability and size of these rebates, subsidies, tax credits, incentives, targets and other support for solar energy. To encourage the adoption of solar technologies, the U.S. government and numerous state and local governments have provided subsidies



in the form of rebates, cost reductions, tax incentives and other financial incentives to end-users, distributors, systems integrators and manufacturers of solar power products. Many of these support programs expire, phase out over time, require renewal by the applicable authority, or may be modified without notice. For example, the 30% investment tax credit under federal tax regulations, which were scheduled to expire at the end of 2016, have been extended to the end of 2019, after which time it declines in stages to a permanent 10% rate credit starting in 2022. Reductions, eliminations, expirations or periodic interruption of these government subsidies, tax credits and other financial incentives may result in the diminished competitiveness of solar energy, thus materially and adversely affecting the demand and/or price levels for solar projects, leading to a reduction in Solar Energy revenues and adversely impacting our financial results. Additionally, many state governments have adopted, or endorse, or encourage utilities to achieve, certain renewable portfolio standards and goals which have driven the adoption of solar and other alternative energy technologies. These renewable targets and goals are subject to change at any time, and are especially subject to political instability or policy changes. The reduction, elimination, or expiration of these targets, goals and standards could negatively impact demand for solar technology generally and our solar business specifically.

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The execution of our Solar Energy growth strategy is dependent upon the continued availability of third-party financing arrangements for our customers. Depending on the status of financial markets, companies may be unwilling or unable to finance the cost of construction of solar projects. We often act as the general contractor for our customers in connection with the installations of our solar power systems and are subject to risks associated with construction, bonding, cost overruns, delays and other contingencies, which could have a material adverse effect on our business and results of operations.

Many of our customers require long-term performance guarantees by us that guarantee certain levels of energy output from the systems we install. Due to general risks inherent in the performance of solar systems, including unexpected performance problems, uncertain technology or other events that could cause us to fail to meet these performance criteria, we could face significant revenue and earnings losses and financial penalties.

The market for electricity generation products is heavily influenced by federal, state, and local government regulations and policies concerning the electric utility industry, as well as utility rate structures, interconnection procedures and policies promulgated by electric utilities. These regulations and policies have been frequently modified in the past and may be modified again in the future. Any changes to existing regulations and policies, and any new regulations and policies, could cause a significant reduction in demand for solar projects. For example, potential solar customers may be deterred from purchasing solar energy as the result of electric grid disconnection or interconnection charges and fees, additional fees and other charges assessed on customers purchasing energy from solar energy systems fees, or changes in rate structures more favorable to electricity consumption. Also, changes to existing regulations and policies or new regulations and policies could have the impact of increasing the costs of conducting a solar business. In addition, any regulatory compliance failure could result in significant management distraction, unplanned costs and/or reputational damage. Likewise, future changes to government or internal utility regulations and policies that favor electric utilities could also reduce our competitiveness and cause a significant reduction in demand for our solar energy projects.

A material drop in the retail price of utility-generated electricity or electricity from other sources would harm our business, financial condition and results of operations. We believe that a customer's decision to buy renewable energy from us is primarily driven by their desire to pay less for electricity. The customer's decision may also be affected by the cost of other renewable energy sources. Decreases in the retail prices of electricity from the utilities or other renewable energy sources would harm our ability to offer competitive pricing on solar projects and could harm our business.

Our success in developing and growing a profitable solar energy business depends in large part on our ability to anticipate and effectively manage these and other risks and uncertainties, many of which are outside of our control. Any of these risks could materially and adversely affect business and our operating results.

***If we were to lose the services of one or more of our executive officers and key business leaders, we might not be able to execute our business strategy successfully and our business and financial results could be materially and adversely affected.***

Our future success depends in large part upon the continued service of our executive officers and our other key business leaders. In particular, we are dependent upon Sidney Hinton, our President and Chief Executive Officer, who is the visionary and leader of our company and who is critical to the overall management of our company as well as to

the development of our business, our future growth and performance and our strategic direction. The loss of the services of any of our executive officers or other key business leaders, especially Mr. Hinton, could materially and adversely affect our business, financial condition and results of operations.

***If we are unable to continue to attract and retain key personnel, our business could be materially and adversely affected.***

We believe our future success and performance depends, in large part, upon our ability to attract and retain highly qualified leaders for our business units and technical, managerial, sales, marketing, finance and operations personnel. Competition for qualified personnel is intense, and we cannot assure you that we will be able to attract and retain these key employees in the future, especially in improved economic conditions. The loss of the services of any of our key personnel could have a material adverse effect on our business. Although we have entered into employment agreements with our executive officers and the leaders of some of our business units, we generally do not have employment contracts with our other key employees. In addition, we do not have key person life insurance

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for most of our key personnel. We cannot assure you that we will be able to retain our current key personnel or that we will be able to attract and retain other highly qualified personnel in the future. We have from time to time in the past experienced, and we expect in the future to continue to experience, difficulty in hiring and retaining highly skilled employees with appropriate qualifications. If we are unable to attract and retain highly qualified personnel, our business could be materially and adversely affected.

### ***Price increases in some of the key components in our products and systems could materially and adversely affect our operating results and cash flows.***

The prices of some of the key components of our products and systems are subject to fluctuation due to market forces beyond our control. If we incur price increases from our suppliers for key components in our products and systems or from our contractors, we may not be able to pass all of those price increases on to our customers in the form of higher sales prices, which would adversely affect our operating results and cash flows.

For example, a significant portion of our revenues in recent years have been generated from fixed price Distributed Generation projects, and increases in the prices of key components in those projects, such as engines, generators, emissions systems, fuel systems, diesel fuel, copper, aluminum and labor, would increase our operating costs and, accordingly, reduce our margins in those projects. Similarly, we use key components in our Energy Efficiency, Solar Energy and Utility Infrastructure products and services that are subject to price fluctuations. Although we intend to adjust the pricing on future projects based upon long-term changes in the prices of our components, we generally cannot pass on short-term price increases on fixed priced projects, and we may not be able to pass on all long-term price increases. Such price increases could occur from time to time due to spot shortages of commodities or labor, longer-term shortages due to market forces beyond our control or exchange rate fluctuations.

An increase in our operating costs due to price increases from these components causing a reduction in our margins could materially and adversely affect our consolidated results of operations and cash flows.

### ***We depend on sole source and limited source suppliers for some of the key components and materials in our products and systems, which dependence makes us susceptible to supply shortages or price increases that could materially and adversely affect our business.***

We depend upon sole source and limited source suppliers for some of the key components and materials that we use in our products and systems. If we experience delays in receiving these components or parts, we will not be able to deliver our products and systems to our customers on a timely basis, which could defer revenues and income recognition, cause the cancellation or reduction of some projects and contracts or cause us to incur financial penalties. Also, we cannot guarantee that any of the parts or components that we purchase, if available at all, will be of adequate quality or that the prices we pay for these parts or components will not increase.

For example, we are dependent upon obtaining a timely and cost-effective supply of generators and engines for our generator systems for our Distributed Generation solutions, but from time to time these generators and engines may be in short supply, affecting the timing of our performance and cost of the generators. Also, we are dependent upon obtaining certain component parts for our LED lighting products, and the failure to obtain these on a timely and cost-effective business could affect our gross margins and our customer satisfaction. Similarly, we are dependent on obtaining solar panels for our solar projects, but these panels are from time to time in short supply affecting our ability to timely and profitably complete those projects. From time to time we may experience delays in production because the supply of one or more critical components is interrupted or reduced, or because of malfunctions or failures of key components, or we may experience significant increases in the cost of such components.

If any of those events occurs and we have failed to identify an alternative vendor, then we may be unable to meet our contractual obligations and customer expectations, which could damage our reputation and result in lost customers and sales, or we may incur higher than expected expenses, either of which could materially and adversely affect our business, operations and results of operations.

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***Our business is subject to the risk of changes in utility tariff structures, which changes could materially and adversely affect our business as well as our financial condition and results of operations.***

Our business is dependent, in part, upon our ability to utilize our Distributed Generation systems to create favorable electricity costs for customers based on utility pricing structures and incentives. If utility tariffs change in some regions, then our business would become less viable in those regions. Moreover, even if such tariffs do not change, if we are unable to obtain the expected benefits from those tariffs, our revenues and income would be materially and adversely affected. Changes in utility tariffs or our inability to obtain the benefits of tariff structures could materially and adversely affect our business, financial condition and results of operations. In addition, many utility tariffs include penalties, which can be severe, in the event that our Distributed Generation systems do not operate properly when required. Incurring these penalties, particularly in cases where we have multiple Distributed Generation installations serving one utility system, could materially and adversely affect our business.

***Our business is subject to the risk of changes in environmental requirements or their interpretations, which could materially and adversely affect our business as well as our financial condition and results of operations.***

We primarily utilize diesel powered generators in our systems and recently started utilizing natural gas generators in our systems. If regulatory requirements or their interpretation unfavorably impact the utilization of diesel for generation, or require the diesel to have certain properties that impact the operation of our Distributed Generation systems or their cost, then our business could be materially and adversely affected. While, in such case, we would utilize our best efforts to find alternative power sources, or modify the units to qualify under the requirements, there is no assurance those alternatives would be economically acceptable. Thus, unfavorable changes to such regulatory environmental requirements could materially and adversely affect our business as well as our financial condition and results of operations.

***In some of our project-based Distributed Generation system sales, the contracts with our customers have long-term performance requirements that subject us to risks.***

In some of our project-based Distributed Generation system sales, the contracts with our customers impose long-term performance requirements on us, and these projects subject us to risks due to our obligations under those contracts. For example, in some cases, we are responsible for the full maintenance on the generators, switchgear, solar panels, or inverters during the term of the contract, but the reserves we have set aside may not be sufficient to cover our maintenance obligations, and the maintenance packages that we purchase to cover the maintenance on the generators may not be adequate. In addition, changes in circumstances that were not contemplated at the time of the contract could expose us to unanticipated risks or to protracted or costly dispute resolution.

***Utility companies or governmental entities could place barriers to our entry into the marketplace that could adversely affect our business.***

Utility companies or governmental entities could place barriers on the installation of our products or the interconnection of our Distributed Generation systems with the electric grid. Further, they could charge additional fees to our customers for installing Distributed Generation. These types of restrictions, fees or charges could impair our ability to sell our Distributed Generation systems, or the ability of our customers to effectively use our systems, or they could increase the costs of operating our systems. This could make our Distributed Generation systems less desirable, which could materially and adversely affect our business, financial condition and operating results.

***We could become subject to burdensome government regulation that affects our ability to offer our products and services or that affects demand for our products and services.***

Our business operations are subject to varying degrees of federal, state, local and foreign laws and regulations. For example, our products, services and technologies are subject to regulations relating to emissions, building codes, public safety, electrical connections, security protocols, and local and state licensing requirements. The regulations to which we are subject may change, additional regulations may be imposed, or existing regulations may be applied in a manner that creates special requirements for the implementation and operation of our products or services that may significantly impact or even eliminate some of our revenues or markets. In addition, we may incur material costs or liabilities in complying with any such regulations. For example, our company-owned recurring revenue projects could be materially and adversely affected by new laws or regulations, or new interpretations of existing laws and regulations, that would ban the ownership of power generation by a third party, such as us. Furthermore, some of our customers must comply with numerous laws and regulations, which may affect their willingness and ability to purchase our products, services and technologies.

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In addition, while the electric power markets in which we operate are regulated, most of our business is not directly subject to the regulatory framework applicable to the generation and transmission of electricity. However, we could become directly subject to such regulation to the extent we are deemed to own, operate or control generation used to make wholesale sales of power or provide ancillary services such as exporting power to the electric power grid as a short-term reserve resource.

The modification of existing laws and regulations or interpretations thereof or the adoption of future laws and regulations could adversely affect our business, cause us to modify or alter our methods of operations and increase our costs and the price of our products, services and technology. In addition, we cannot provide any assurance that we will be able, for financial or other reasons, to comply with all applicable laws and regulations. If we fail to comply with these laws and regulations, we could become subject to substantial penalties or restrictions that could materially and adversely affect our business.

***Because many of our businesses and our product and services offerings have limited histories and their business strategies are evolving, their markets may be limited and concentrated, and limited information is available to evaluate their future prospects.***

Our business strategy includes the development and expansion of new businesses and product lines from time to time. Examples of recent new product offerings and businesses include, but are not limited to, our Solar Energy business, our LED lighting products, our micro-grid products and our PowerBlock generator technologies. Our plans and strategies with respect to these new businesses and product offerings are often based on limited histories and market information and are continually being modified as we seek to maximize their potential. In addition, our new businesses generally have a limited number of customers, and our future success depends in large part upon our ability to expand our customer base and to enhance and develop our products and services in these new businesses so that they will generate significant revenues, profits and cash flow.

As a company developing new businesses in the rapidly evolving energy and technology markets, we face numerous risks and uncertainties that are described in this item as well as other parts of this report. Some of these risks relate to our ability to:

anticipate, adapt and influence the changing regulatory climate for energy and technology products, services and technology;

provide new products and services at price points that deliver economic benefits to our customers and to us;

expand our customer base in our new businesses;

anticipate and adapt to the changing energy markets and customer preferences;

attract, retain and motivate qualified personnel and leaders for these new businesses;



respond to actions taken by our competitors;

integrate acquired businesses, technologies, products and services;

generate revenues, gross margins, cash flow and profits from sales of new products and services; and

implement effective sales and marketing strategies to increase the demand for our new businesses, products and services.

Our business and financial results in the future will depend heavily on the market acceptance and profitability of our new businesses and these new product and service offerings. If we are unsuccessful in addressing these risks or in executing our business strategies, or if our business model fails or is invalid, then our business could be materially and adversely affected.

***Changes in our product mix affect our margins, which can materially and adversely affect our operating results.***

The margins on our revenues from some of our segments are higher than the margins on revenues from other segments. For example, our Distributed Generation projects generally yield gross profit margins significantly higher than our Solar Energy projects, and we generally derive higher gross profit margins from our Energy Efficiency revenues than from our Utility Infrastructure revenues. The gross profit margins we realize largely correlates to the amount of value-added products and services we deliver, with highly engineered, turn-key projects realizing higher

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gross profit margins due to the benefits they deliver our customers and the value we deliver because we are vertically integrated. Because of these gross profit margin differences, changes in the mix of our product lines can adversely affect our consolidated gross profit margin results. For example, while revenues from our Solar Energy segment were significantly greater and represented a larger portion of our product mix in 2015 than 2014, the lower margins from our Solar Energy business resulted in lower overall margins in our business in 2015 than in 2014.

Additionally, our margins within a segment can fluctuate from project to project, depending on the project's scope, technical specifications and materials and labor costs, among other factors. Our margins can also fluctuate based upon competition, alternative products and services, operating costs, tariff systems and contractual factors. The absolute level of revenue achieved in any particular period can also affect our margins, because portions of our cost of sales are relatively fixed over the near-term, the most significant of which is personnel and equipment costs. In addition, we cannot currently accurately estimate the margins of some of our new and developing products and services due to their limited operating history. Our new products and services may have lower margins than our current products and services. If in the future we derive a proportionately greater percentage of our revenues from lower margin products and services, then our overall margins on our total revenues will decrease, and, accordingly, we will record lower profits and receive less cash flow on the same amount of revenues.

Some of these factors are not within our control, and we cannot provide any assurance that we can continue to improve upon those factors that are within our control, especially given the current economic climate. If in the future we derive a proportionately greater percentage of our revenues from lower margin products and services, then our overall margins on our total revenues will decrease, and, accordingly, we will record lower profits and receive less cash flow on the same amount of revenues. Moreover, our gross revenues are likely to fluctuate from quarter to quarter and from year to year. Accordingly, there is no assurance that our future gross profit and gross profit margins will improve or even remain at historic levels in the future, and could decrease.

***In addition to the proceedings and litigation related to the class action lawsuit, we are subject to other lawsuits, claims and other proceedings from time to time, and in the future we could become subject to new lawsuits, claims and other proceedings, and if any of those proceedings become material and are successfully prosecuted against us, our business, financial condition and results of operations could be materially and adversely affected.***

In addition to the class action lawsuit filed against us in 2014 and related proceedings described elsewhere in this report, from time to time, we are involved in a variety of claims, lawsuits, investigations, actions and other legal proceedings arising in the ordinary course of our business, including actions with respect to labor and employment, non-competition agreements, taxes, breach of contract, warranty claims, accidents, injuries, property damage and other matters. For example, from time to time, we are involved in disputes relating to the scope of our services, or services that we receive from our vendors, and charges or fees relating to those services. These disputes have historically been limited in number and dollar amount and, in the opinion of management, based upon current information, no currently pending or overtly threatened claim is expected to have a material adverse effect on our business, financial condition or results of operations. However, our historical experience is not necessarily indicative of the number or dollar amount of future disputes or claims, and the ultimate outcome of these types of matters cannot be accurately predicted due to the inherent uncertainty of litigation. We have vigorously defended all claims against us in the past, and intend to continue to do so in the future. However, even if we are successful on the merits, any pending or future lawsuits, claims or other legal proceedings could be time-consuming and expensive to defend or settle and could result in the diversion of significant management time and operational resources, which could materially and adversely affect us. In addition, it is possible that an unfavorable resolution of one or more such disputes, claims or proceedings could in the future materially and adversely affect our financial condition, results of operations or cash flows.

***We provide product warranties, which could adversely affect our operating results.***

We generally provide a standard one year warranty for our distributed generation, switchgear and utility infrastructure equipment and a five to ten year warranty for our LED lighting-based products. In certain cases, we offer extended warranty terms for those product lines. We reserve for the estimated cost of product warranties when revenue is recognized, and we evaluate our warranty reserves periodically by reviewing our warranty repair experience. While we engage in product quality programs and processes, including monitoring and evaluating the quality of our components sourced from our suppliers and instituting methods to remotely detect and correct failures, our warranty obligation is affected by actual product failure rates, parts and equipment costs and service labor costs incurred in correcting a product failure. Our warranty reserves may be inadequate due to undetected product defects, unanticipated component failures, or changes in estimates for material, labor and other costs we may incur to replace projected product failures. As a result, if actual product failure rates, parts and equipment costs or service labor costs exceed our estimates, our operating results could be adversely impacted.

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In addition, we provide longer warranties for our Solar Energy products. Since the solar energy systems we purchase and sell, and their associated components, including solar panels, cannot be tested for the duration of their standard multi-year warranty period, we may be subject to unexpected warranty expense and product liability claims that our vendors do not cover. Additionally, the solar panel manufacturing industry has experienced significant financial upheaval and inconsistent results in recent years, driven largely by decreasing panel prices, and this has weakened the financial health of many of the panel manufacturers which can affect their ability to honor their warranty obligations. The current standard product warranty for the solar energy systems we sell includes a warranty period of generally one to five years for defects in material and workmanship, a warranty period that can extend to ten years for panel and inverter workmanship, and a warranty period which can extend 20 to 25 years on the functionality of solar panels which is generally backed by the panel manufacturer. Due to the long warranty period and even though we pass through manufacturers' warranties from the manufacturer, we may bear the risk of extensive warranty claims long after we have shipped product and recognized revenue. Any warranty claims that the manufacturer does not cover could cause us to increase the amount of warranty reserves and have a corresponding negative impact on our results.

***Consolidation in our customer base and utility relationships can create risks that could adversely affect our business.***

From time to time industry consolidation can occur and impact our customers and potential customers, as well as our utility relationships and potential utility relationships. Industry consolidation has the potential to impact virtually every area of our business. In each of our businesses, industry consolidation has the potential to create both positive and negative effects on our business. The risks created by industry consolidation include, but are not limited to, instances where our customers or utility company relationships are acquired by other customers or utilities who:

have vendors other than us from which they prefer to source our products and services;

seek to reduce the prices they pay for our products and services;

have not adopted our methodologies and technology;

impact organizational structures and personnel such that our relationships are negatively affected; or

in the case of utilities, cause changes in tariff structures that are unfavorable to our business.

***If we are unable to continue to develop new and enhanced products and services that achieve market acceptance in a timely manner, our competitive position and operating results could be harmed.***

Our future success will depend on our ability to continue to develop new and enhanced products and services that achieve market acceptance in a timely and cost-effective manner. The markets in which our businesses operate are characterized by frequent introductions of new and enhanced products and services, evolving industry standards and regulatory requirements, government incentives and changes in customer needs. The successful development and market acceptance of our products and services depends on a number of factors, including:

the changing requirements and preferences of the potential customers in our markets;

the accurate prediction of market requirements, including regulatory issues;

the timely completion and introduction of new products and services to avoid obsolescence;

the quality, price and performance of new products and services;

the availability, quality, price and performance of competing products, services and technologies;

our customer service and support capabilities and responsiveness;

the successful development of our relationships with existing and potential customers; and

changes in industry standards.

We may experience financial or technical difficulties or limitations that could prevent us from introducing new or enhanced products or services. Furthermore, any of these new or enhanced products and services could contain problems that are discovered after they are introduced. We may need to significantly modify the design of these products and services to correct problems. Rapidly changing industry standards and customer preferences and requirements may impede market acceptance of our products and services. Our business could be materially and adversely affected if we experience difficulties in introducing new or enhanced services and products or if these products and services are not received favorably by our customers.

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Development and enhancement of our products and services will require significant additional expenses and could strain our management, financial and operational resources. The lack of market acceptance of our products or services or our inability to generate sufficient revenues from this development or enhancements to offset their costs could have a material adverse effect on our business. In addition, we may experience delays or other problems in releasing new products and services and enhancements, and any such delays or problems may cause customers to forego purchases of our products and services and to purchase those of our competitors.

We cannot provide assurance that products and services that we have recently developed or that we develop in the future will achieve market acceptance. If our new products and services fail to achieve market acceptance, or if we fail to develop new or enhanced products and services that achieve market acceptance, our growth prospects, operating results and competitive position could be adversely affected.

### ***Rapid technological changes may prevent us from remaining current with our technological resources and maintaining competitive product and service offerings.***

The markets in which our businesses operate are characterized by rapid technological change. Significant technological changes could render our existing and planned new products, services and technology obsolete. Our future success will depend, in large part, upon our ability to:

effectively use and develop leading technologies;

continue to develop our technical expertise;

enhance our current products and services with new, improved and competitive technology; and

respond to technological changes in a cost-effective manner.

If we are unable to successfully respond to technological change or if we do not respond to it in a cost-effective manner, then our business will be materially and adversely affected. We cannot assure you that we will be successful in responding to changing technology. In addition, technologies developed by others may render our products, services and technology uncompetitive or obsolete. Even if we do successfully respond to technological advances, the integration of new technology may require substantial time and expense, and we cannot assure you that we will succeed in adapting our products, services and technology in a timely and cost-effective manner.

### ***Failures in the integrity of our current financial systems and processes, and future system or process upgrades or changes, could materially affect our business performance and our ability to accurately and timely report our financial results.***

Our ability to generate accurate and timely financial information for management reporting and public reporting purposes is dependent on the integrity and stability of our current financial systems and processes, and future changes and upgrades to these systems and processes. Disruptions in our systems integrity could lead to operational issues and inefficiencies in our business which could be material. Our growth requires that we upgrade our financial systems and processes from time to time, and we expect financial system upgrades will improve our financial operations when complete, but transitional issues could occur during the upgrade process which could adversely impact our

performance as well as the integrity or timing of our financial results.

***If we fail to effectively manage our operations as we grow, our ability to sell our products and services and to provide quality customer service may be adversely affected.***

In past years we have experienced, and in future years we expect to achieve, substantial growth in our business and revenues, resulting from both organic growth and acquisitions. As a result, the scope of our operations have expanded into new lines of business and new geographic areas, and the number of our employees has increased significantly to support that growth, and we expect that growth and expansion to continue. This growth could place a significant strain on our management and operational resources, including our ability to timely and cost-effectively satisfy our customers' requirements and our ability to execute our business plan. Accordingly, we must plan and manage our resources effectively in order to continue to offer quality and successful products and services, to carry out our business plan and to achieve profitability in the midst of such growth. For example, we must continue to implement and continue to improve our managerial, operational, financial and reporting systems, our internal controls and our procedures and compliance programs, and we need to continue to recruit and train additional

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qualified personnel. These measures will require significant expenditures and demand the attention of management. Our limited resources could limit our ability to manage that growth. If we are not able to effectively manage our long-term growth in the future, our business and operations could be materially and adversely affected.

***Our business may be subject to additional obligations to collect and remit sales, use or other taxes, and any successful action by state, foreign or other authorities to collect additional sales, use or other taxes could adversely harm our business.***

We file sales or use tax returns in certain states as required by law. We do not collect sales or other similar taxes in other states and many of the states do not apply sales or similar taxes to the services that we provide. However, one or more states could seek to impose additional sales or use tax collection and record-keeping obligations on us. Any successful action by state, foreign or other authorities to compel us to collect and remit sales or use taxes, either retroactively, prospectively or both, could adversely affect our results of operations and business.

***Our results of operations could be adversely affected if our goodwill or other intangible assets become impaired.***

When we acquire a business, we record an asset called goodwill equal to the excess amount we pay for the business, including liabilities assumed, over the fair value of the tangible and intangible assets of the business we acquire. In accordance with GAAP, we must identify and value intangible assets that we acquire in business combinations, such as customer arrangements, customer relationships and non-compete agreements, that arise from contractual or other legal rights or that are capable of being separated or divided from the acquired entity and sold, transferred, licensed, rented or exchanged.

GAAP provides that goodwill and other intangible assets that have indefinite useful lives not be amortized, but instead must be tested at least annually for impairment, while intangible assets that have finite useful lives are amortized over their useful lives. Management is required to make certain estimates and assumptions when allocating goodwill to reporting units and determining the fair value of a reporting unit's net assets and liabilities, including, among other things, an assessment of market conditions, projected cash flows, investment rates, cost of capital and growth rates, which could significantly impact the reported value of goodwill and other intangible assets. Absent any impairment indicators, we perform our impairment tests annually as of October 1. We review our intangible assets with finite lives for impairment when events or changes in business conditions indicate the carrying value of the assets may not be recoverable.

We cannot predict the occurrence of certain future events that might adversely affect the reported value of goodwill and other intangible assets that totaled \$53.4 million at December 31, 2015. A material decline in our market capitalization or change in discount rates or industry growth rates could result in an impairment of our goodwill. The recognition of a significant charge to earnings in our consolidated financial statements resulting from any impairment of our goodwill or other intangible assets could adversely impact our results of operations.

***We could be adversely affected by our failure to comply with the laws applicable to our foreign activities, including the U.S. Foreign Corrupt Practices Act and other similar worldwide anti-bribery laws.***

The U.S. Foreign Corrupt Practices Act, or FCPA, and similar anti-bribery laws in other jurisdictions prohibit U.S.-based companies and their intermediaries from making improper payments to non-U.S. officials for the purpose of obtaining or retaining business. We may pursue opportunities in certain parts of the world that experience government corruption, and in certain circumstances, compliance with anti-bribery laws may conflict with local customs and practices. Our policies mandate compliance with all applicable anti-bribery laws. Further, we require our partners, subcontractors, agents and others who work for us or on our behalf to comply with the FCPA and other



anti-bribery laws. Although we have policies and procedures, and have conducted training, designed to ensure that we, our employees, our agents and others who work with us in foreign countries comply with the FCPA and other anti-bribery laws, there is no assurance that such policies, procedures or training will protect us against liability under the FCPA or other laws for actions taken by our agents, employees and intermediaries. If we are found to be liable for FCPA violations (either due to our own acts or inadvertence, or due to the acts or inadvertence of others), we could suffer from severe criminal or civil penalties or other sanctions, which could have a material adverse effect on our reputation, business, results of operations or cash flows. In addition, detecting, investigating and resolving actual or alleged FCPA violations is expensive and could consume significant time and attention of our senior management.

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***If our information technology systems fail to adequately gather and protect required data or are compromised or fail to operate, or if we experience an interruption in the operation of our information technology systems, our business, financial condition and results of operations could be adversely affected.***

The efficient operation of our business is dependent on our information technology systems. For example, we rely on our information technology systems to effectively control Distributed Generation equipment on our customers' sites and gather and assess data used in our operations. The failure of our information technology systems to perform as we anticipate could disrupt our business and make us unable, or severely limit our ability, to serve our customers. In addition, our information technology systems are vulnerable to damage or interruption from:

earthquakes, fires, floods and other natural disasters;

terrorist attacks and attacks by computer viruses or hackers;

power losses; and

computer systems, Internet, telecommunications or data network failures.

Any interruption in the operation of our information technology systems could result in decreased revenues, loss of customer confidence in our products, services, technology or systems and lawsuits and could subject us to penalties. Although no such failures or interruptions have occurred to date, any such occurrence could have a material adverse effect on our business, financial condition and results of operations.

***Security breaches and other disruptions could compromise our information and expose us to liability, which would cause our business and reputation to suffer.***

In the ordinary course of our business, we collect and store sensitive data, including intellectual property, our proprietary business information and that of our customers, suppliers and business partners, and personally identifiable information of our customers and employees, in our data centers and on our networks. The secure processing, maintenance and transmission of this information is critical to our operations and business strategy. Despite our security measures, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions, which could compromise our networks and the information stored there could be accessed, publicly disclosed, lost or stolen. Although we have not suffered any such breach, access or other loss of information to date, any such occurrence could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, disrupt our operations and the services we provide to customers, damage our reputation and cause a loss of confidence in our products and services, which could adversely affect our business, financial condition and results of operations.

***We may be unable to acquire other businesses, technologies or companies or engage in other strategic transactions, and we may not be able to successfully realize the benefits of and may be exposed to a variety of risks from any such strategic transactions.***

In addition to organic growth, we have grown in the past and expect to grow in the future by acquiring complimentary products, services, technologies and businesses and entering into other strategic transactions that have enabled us to

increase our product and service offerings, enhance our technology and capabilities, expand our markets and add experienced management. For example, in recent years we made acquisitions of new businesses and technologies such as PowerSecure Solar, Solais, and Encari, and we have made acquisitions designed to expand our existing products and services into new markets such as our Distributed Generation data center markets and our Energy Efficiency Services business.

As part of our growth strategy, we expect to continue to evaluate and consider potential strategic transactions, including business combinations, acquisitions and strategic alliances, to enhance our existing businesses and to develop new products, services. At any given time we may be engaged in discussions or negotiations with respect to one or more of these types of transactions, and any of these transactions could be material to our financial condition and results of operations. However, we do not know if we will be able to identify any future opportunities that we believe will be beneficial for us. Even if we are able to identify an appropriate business opportunity, we may not be able to successfully consummate the transaction, and even if we do consummate such a transaction we may be unable to obtain the benefits or avoid the difficulties and risks of such transaction.

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Any future acquisition involves risks commonly encountered in business relationships, including:

difficulties in assimilating and integrating the operations, personnel, systems, technologies, finance and accounting functions, and products and services of the acquired business;

technologies, products or businesses that we acquire may not achieve expected levels of revenue, profitability, benefits or productivity;

we may not be able to achieve the expected synergies from an acquisition, or it may take longer than expected to achieve those synergies;

unexpected costs and liabilities and unknown risks associated with the acquisition;

difficulties and inefficiencies in managing and operating businesses in multiple locations or businesses in which we have limited or no direct experience;

difficulties in retaining, training, motivating and integrating key personnel;

diversion of management's time and resources away from our daily operations;

difficulties in successfully incorporating licensed or acquired technology and rights into our product and service offerings;

difficulties in maintaining uniform standards, controls, procedures and policies within the combined organizations;

difficulties in managing, maintaining and enhancing relationships with customers and suppliers of the acquired business;

risks of entering markets in which we have no or limited direct prior experience;

difficulties in integrating accounting and financial reporting systems;

potential disruptions to our ongoing businesses;

potential need for restructuring operations or reductions in workforce, which may result in substantial charges to our operations;

difficulties in implementing controls, procedures and policies, including disclosure controls and procedures and internal controls over financial reporting, appropriate for a larger public company at companies that, prior to their acquisition, lacked such controls, procedures and policies, which may result in ineffective disclosure controls and procedures or material weaknesses in internal controls over financial reporting;

incurring future impairment charges related to diminished fair value of businesses acquired as compared to the price we paid for them; and

issuing potentially dilutive equity securities, or incurring debt or contingent liabilities, which could harm our financial condition.

We cannot assure you that we will make any additional acquisitions or that any future acquisitions will be successful, will assist us in the accomplishment of our business strategy, or will generate sufficient revenues to offset the associated costs and other adverse effects or will otherwise result in us receiving the intended benefits of the acquisition. In addition, we cannot assure you that any future acquisition of new businesses or technology will lead to the successful development of new or enhanced products and services, or that any new or enhanced products and services, if developed, will achieve market acceptance or prove to be profitable.

***If we fail to adequately protect our intellectual property rights, we could lose important proprietary technology, which could materially and adversely affect our business.***

Our success and ability to compete depends, in substantial part, upon our ability to develop and protect our proprietary technology and intellectual property rights to distinguish our products, services and technology from those of our competitors. The unauthorized use of our intellectual property rights and proprietary technology by others could materially harm our business. We rely primarily on a combination of copyright, trademark and trade secret laws, along with non-competition and confidentiality agreements, contractual provisions and licensing arrangements, to establish and protect our intellectual property rights. Although we hold several patents, trademarks, and unregistered copyrights in our business, and we have applied for an additional patent and the registration of a number of new trademarks and service marks and intend to continue to introduce new trademarks and service marks, we believe that the success of

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our business depends more upon our proprietary technology, information, processes and know-how than on patents or trademark registrations. In addition, much of our proprietary information and technology may not be patentable. Also, we may not be successful in obtaining any future patents or in registering new marks.

Despite our efforts to protect our intellectual property rights, existing laws afford only limited protection, and our actions may be inadequate to protect our rights or to prevent others from claiming violations of their proprietary rights. Unauthorized third parties may attempt to copy, reverse engineer or otherwise obtain, use or exploit aspects of our products and services, develop similar technology independently, or otherwise obtain and use information that we regard as proprietary. We cannot assure you that our competitors will not independently develop technology similar or superior to our technology or design around our intellectual property. In addition, the laws of some foreign countries may not protect our proprietary rights as fully or in the same manner as the laws of the United States.

We may need to resort to litigation to enforce our intellectual property rights, to protect our trade secrets, and to determine the validity and scope of other companies' proprietary rights in the future. However, litigation could result in significant costs and in the diversion of management and financial resources. We cannot assure you that any such litigation will be successful or that we will prevail over counterclaims against us. Our failure to protect any of our important intellectual property rights or any litigation that we resort to in order to enforce those rights could materially and adversely affect our business.

***If we face claims of intellectual property infringement by third parties, we could encounter expensive litigation, be liable for significant damages or incur restrictions on our ability to sell our products and services.***

Although we are not aware of any present infringement of our products, services or technology on the intellectual property rights of others, we cannot be certain that our products, services and technologies do not or in the future will not infringe on the valid intellectual property rights held by third parties. In addition, we cannot assure you that third parties will not claim that we have infringed their intellectual property rights.

In recent years, there has been a significant amount of litigation in the United States involving patents and other intellectual property rights. In the future, we may be a party to litigation as a result of an alleged infringement of others' intellectual property. Successful infringement claims against us could result in substantial monetary liability, require us to enter into royalty or licensing arrangements, or otherwise materially disrupt the conduct of our business. In addition, even if we prevail on these claims, this litigation could be time-consuming and expensive to defend or settle, and could result in the diversion of our time and attention and of operational resources, which could materially and adversely affect our business. Any potential intellectual property litigation also could force us to do one or more of the following:

stop selling, incorporating or using our products and services that use the infringed intellectual property;

obtain from the owner of the infringed intellectual property right a license to sell or use the relevant technology, which license may not be available on commercially reasonable terms, or at all; or

redesign the products and services that use the technology.

If we are forced to take any of these actions, our business may be seriously harmed. Although we carry general liability insurance, our insurance may not cover potential claims of this type or may not be adequate to indemnify us

for all liability that may be imposed.

***Our use of percentage-of-completion accounting could result in a reduction or elimination of previously reported revenue and profits.***

A significant portion of our revenues is recognized using the percentage-of-completion method of accounting. These turn-key Distributed Generation, Solar Energy, Utility Infrastructure, and Energy Efficiency Services projects are nearly always fixed-price contracts.

In applying the percentage-of-completion method to our Distributed Generation and Solar Energy 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 the costs incurred and the value added to the overall 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 turn-key product solution we deliver to our customers. We use these output phases and

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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 project, and this determination 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 Distributed Generation projects that specifically involve data center infrastructure construction, Utility Infrastructure turn-key projects and our Energy Efficiency Services 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.

In all cases where we utilize the percentage-of-completion method, 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 scope, 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 as described above, recognized revenues and profits are subject to revision as a project progresses to completion. Revisions in profit estimates are recorded to income in the period in which the facts that give rise to the revision become known. In the event we are 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 require us to adjust our estimated revenues or costs for a series of similar construction projects, or on very large projects, the effect on current period earnings would more likely be significant. In addition, certain contracts contain cancellation provisions permitting the customer to cancel the contract prior to completion of a project. Such cancellation provisions generally require the customer to pay/reimburse us for costs we incurred on the project, but may result in an adjustment to profit already recognized in a prior period.

### ***Our operating results can be negatively affected by weather conditions.***

We perform a substantial amount of our services in the outdoors. As a result, adverse weather conditions, such as rainfall, snow or storms, may affect our productivity in performing, or may delay our performance of, those services. The effect of weather delays in projects that are under fixed price arrangements may be greater if we are unable to adjust the project schedule for such delays. While difficult weather conditions can provide opportunities for us to serve utilities with storm restoration activities, a reduction in our productivity or delays in our performance of our services may adversely affect our business and financial results.

### ***We face exposure to significantly higher tax liabilities in the future as a result of our recent utilization of existing net operating loss carryforwards, which could adversely affect our cash flows and net income.***

In recent years, we have exhausted a significant portion of our available net operating loss carryforwards, or NOLs, as a result of taxable income for U.S. federal income tax purposes. As of December 31, 2015, our available federal NOLs were approximately \$34.3 million expiring over the next 20 years. When our aggregate net income, for federal income tax purposes, exceeds the amount of our available NOLs, we incur a current liability for federal income taxes, which adversely affects our net income, cash flow and available cash resources compared to previous periods.



In addition, our ability to utilize these NOLs is subject to significant conditions and restrictions. If we fail to meet these conditions and restrictions, we may be unable to fully utilize some or all of these NOLs. For example, the use of our NOLs is limited under the alternative minimum tax provisions of the U.S. federal income tax code, as a result of which we have recorded and paid U.S. federal income taxes in the past and expect to do so in the future. Other limitations imposed on our ability to use NOLs to offset future taxable income could cause us to pay U.S. federal income taxes earlier than we otherwise would if such limitations were not in effect, adversely affecting our future net income and cash flow. For example, a corporation that undergoes an ownership change for U.S. federal income tax purposes is subject to limitations on its ability to utilize its NOLs to offset future taxable income. A corporation generally undergoes an ownership change when the ownership of its stock, by value, changes by more than 50 percentage points over any three year period. Similar rules and limitations may apply for state income tax purposes as well.

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As a result, as we earn net taxable income, our ability to use our NOL carryforwards to offset federal taxable income may become exhausted or subject to limitations, which could potentially result in increased future tax liability and an adverse impact on our cash flows.

***We may have tax expense exposure that is greater than anticipated in our estimated tax provision.***

The determination of our provision for income taxes and other tax liabilities requires estimation and significant judgment, but there are many transactions and calculations where the ultimate tax determination is uncertain. Our tax returns and our tax positions are subject to review by applicable taxing authorities, and we are from time to time subject to audits and examinations by the Internal Revenue Service and by state and local tax authorities. Any adverse outcome from these audits or examinations could have a negative effect on our operating results and financial condition. We regularly assess the likelihood of favorable or unfavorable outcomes resulting from these audits and examinations to determine the adequacy of our provision for income taxes. Although we believe our tax positions and estimates are reasonable, the ultimate outcome of any tax audit may differ from the amounts recorded in our financial statements and may materially affect our financial results in the period or periods for which such determination is made.

***Changes in statutory tax rates or in our effective tax rate may have an adverse effect on our results of operations.***

Our future effective tax rates may be adversely affected by a number of factors including:

changes in government administrations at the federal and state levels;

changes in tax laws or interpretation of such tax laws, changes in statutory tax rates, and changes in generally accepted accounting principles related to accounting for income taxes;

the jurisdiction in which profits are determined to be earned and taxed;

the resolution of issues arising from tax audits with various authorities;

changes in the valuation of our deferred tax assets and liabilities;

adjustments to estimated taxes upon finalization of various tax returns;

increases in expenses not deductible for tax purposes, including impairment of goodwill in connection with acquisitions;

changes in available tax credits; and

the recognition and measurement of uncertain tax positions.

Any significant increase in statutory tax rates or our future effective tax rates would adversely impact net income for future periods. In addition, the determination of our income tax expense requires complex estimations, significant judgments and significant knowledge and experience concerning the applicable tax laws. To the extent our actual income tax liability materially exceeds our income tax expense and accruals due to factors, including the above, which were not anticipated at the time we estimated our tax expense, our net income or cash flows would be adversely affected.

***We are subject to the risks of owning real property.***

We own real property, including the land and building constituting our principal executive offices as well as one of our production locations, and could acquire additional property in future business acquisitions. The ownership of real property subjects us to risks, including:

the possibility of environmental contamination and the costs associated with fixing any environmental problems and the risk of damages resulting from such contamination;

adverse changes in the value of the property, due to interest rate changes, changes in the neighborhood in which the property is located, or other factors;

ongoing maintenance expenses and costs of improvements;

the possible need for structural improvements in order to comply with zoning, seismic, disability act or other requirements; and

possible disputes with neighboring owners or others.

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### ***Regulations related to conflict-free minerals may force us to incur additional expenses or adversely affect our sourcing of supplies.***

In August 2012, pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act, the SEC adopted new rules requiring disclosure of the use of certain minerals, referred to as conflict minerals, which originate in the Democratic Republic of Congo or adjoining countries. The rules impose diligence and disclosure obligations with respect to these conflict minerals, which are defined as tin, tantalum, tungsten and gold, which are necessary to the functionality of a product manufactured, or contracted to be manufactured, by an SEC reporting company. These new requirements have required us to undertake due diligence efforts since the 2013 calendar year, and to meet annual disclosure requirements by each May 31 of the following year. Our supply chain is complex and we may incur significant costs to determine the source and custody of any conflict minerals in order to comply with these disclosure requirements, including costs associated with canvassing our supply chain to determine the source country of any conflict minerals incorporated in our products, in addition to the cost of remediation and other changes to products, processes, or sources of supply as a consequence of such verification activities. We may also face reputational challenges if we are unable to verify the origins for all conflict minerals used in our products, technology or equipment, or if we are unable to certify that our products are conflict-free. Compliance with these regulatory requirements may also affect the sourcing, price and availability of some minerals necessary to the manufacture of our products.

### ***We may be subject to impacts related to legislative, regulatory and economic responses to climate change, with which compliance could be difficult and costly.***

Legislative and regulatory responses related to climate change and new interpretations of existing laws through climate change litigation create financial risk. Increased public awareness and concern has resulted in more federal, state and local requirements to reduce or mitigate the effects of greenhouse gases. Thus, there is a risk that our Distributed Generation operations, or other businesses could be subject to regulation under climate change laws at the federal, state or local level in the future, and that any such regulation could be difficult and costly to our business and adversely affect our results of operations.

In addition, the potential economic effects of climate change, such as an increase in energy prices, and the potential effect of future legislation aimed at reducing the impact of climate change and lowering emissions could increase the pace of development of alternative energy sources and supplies and the voluntary reduction in energy use, each of which could reduce the need for Distributed Generation and Utility Infrastructure services, which would adversely affect our business and operating results.

### ***Catastrophic events and other factors outside of our control could disrupt our business.***

We must protect our business and operations against damage from earthquake, flood, hurricane and similar catastrophic events. A natural disaster or other unanticipated problem could also adversely affect our business by, among other things, harming our information systems or data, or other internal operations, limiting our ability to communicate with our customers, impairing our ability to perform critical functions of our business and limiting our ability to sell our products and services. Any outbreak of a widespread communicable disease pandemic could similarly impact our operations. There may also be secondary impacts that are unforeseeable as well, such as impacts to our customers and disruptions to our supply chain, which could cause delays in new orders, delays in completing projects or even cancellations of orders. Any of these events could severely affect our ability to conduct normal business operations and, as a result, adversely affect our business, financial condition and our results of operations.

## **Risks Related to the Ownership of our Shares**

***Our charter documents, as well as certain portions of Delaware law, contain anti-takeover provisions that could discourage or prevent a third-party acquisition of our common stock, even if an acquisition would be beneficial to our stockholders.***

Some provisions in our second restated certificate of incorporation and of our amended and restated by-laws, as well as some provisions of Delaware law, could have the effect of discouraging, delaying or preventing a third party from attempting to acquire us, even if doing so would be beneficial to stockholders, including transactions in which investors might otherwise receive a premium for their shares. These provisions could also limit the price that investors might be willing to pay in the future for shares of our common stock. These provisions could also prevent

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or frustrate attempts by our stockholders to replace or remove our management. These provisions include:

a classified Board of Directors in which only approximately one-third of the total board members are elected at each annual meeting;

limitations on the ability of stockholders to change the authorized number of directors or to fill vacancies on the Board of Directors;

the prohibition of cumulative voting in the election of directors;

authority for our Board of Directors to issue shares of our common stock and of our preferred stock, and to determine the price, voting and other rights, preferences, privileges and restrictions of undesignated shares of preferred stock, without any vote by or approval of our stockholders;

super-majority voting requirements to effect material amendments to our second restated certificate and restated by-laws;

a limitation on which persons may call a special meeting of stockholders;

a prohibition on stockholders acting by written consent without a meeting;

a fair price provision that sets minimum price requirements for potential acquirers under certain conditions;

anti-greenmail provisions which limit our ability to repurchase shares of common stock from significant stockholders;

restrictions under Delaware law on mergers and other business combinations between us and any 15% stockholders; and

advance notice requirements for director nominations and for stockholder proposals.

In addition, we have entered into employment agreements with most of our executive officers which, among other things, include provisions for severance payments and accelerated vesting of benefits, such as accelerated vesting of restricted stock and stock options, upon a change in control or circumstances after a change in control.

***We have not in the past paid, we do not currently intend to pay, and the Merger Agreement restricts our ability to pay, any cash dividends on our common stock.***

We have never declared or paid any cash dividends on our common stock, and we do not anticipate declaring or paying any cash dividends on our common stock in the near future. Under the Merger Agreement, we are prohibited from paying cash dividends without the prior written consent of Southern Company.

*The market for our common stock is volatile and subject to extreme trading price and volume fluctuations.*

Our common stock has been listed and traded on the New York Stock Exchange since August 2013. The market price and volume of our common stock has in the past been, and in the future is likely to continue to be, highly volatile. The stock market in general, and the market for small cap companies and energy companies in particular, have experienced extreme price and volume fluctuations in recent years, and these fluctuations have often been unrelated or disproportionate to the operating performance of those companies. While the trading price of our common stock stabilized after the announcement of the Merger Agreement, in the event the Merger is not consummated, or its consummation is questioned by investors, then a number of factors could cause wide fluctuations in the market price and trading volume of our common stock to continue in the future, including:

our ability to generate growing and profitable operations;

the effects of economic, financial and market conditions on our business and revenues, especially the effects of the recent challenging and uncertain economic and financial market conditions and inconsistent capital and credit markets, including their effects on our markets, and the volatility and on the demand for our products, services and technologies;

actual or anticipated fluctuations in our results of operations or those of our competitors, or in other companies that investors consider comparisons to ours;

announcements by us or our competitors of acquisitions, significant technical innovations, new products or services, product improvements, significant contracts, strategic relationships or capital commitments;

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the receipt, deferral or loss of significant customer orders, including replacing, sustaining and growing revenues from new customers;

the introduction of new products and services by us or by our competitors;

the commencement of, or our involvement in, litigation or other legal or regulatory proceedings;

announcements by us or our competitors about the success or status of business;

our ability to develop new relationships and to maintain and enhance existing relationships with customers and strategic partners;

conditions or trends in the energy and technology industries in general, and in the particular markets we serve;

potential favorable or unfavorable regulatory and legislative impacts, including provisions and spending which may or may not be included in federal economic stimulus legislation;

changes in any revenue or earnings guidance or future goals or targets we may from time to time provide, and changes in the amount or timing of our new business announcements and of our revenue backlog;

our financing and capital raising activities;

recommendations by securities analysts and their revenue and earnings estimates, including changes thereto;

changes in, or the failure by us to meet, securities analysts' estimates and expectations;

the lower coverage by securities analysts and the media of smaller issuers like us;

changes in the market valuation of other energy or technology companies;

additions or departures of key personnel;

purchases or sales of our common stock by our directors, executive officers and significant stockholders;



the impact and outcome of existing and future litigation actions, claims or proceedings or regulatory action, such as the class action lawsuit;

general economic, business and market conditions and fluctuations in equity markets; and

other external factor or other disasters or crisis.

Many of these factors are beyond our control. The occurrence of any one or more of these factors could cause the market price of our common stock to increase or decrease significantly, regardless of our operating performance.

In addition, broad fluctuations in price and volume may be unrelated or disproportionate to operating performance. Any significant fluctuations in the future might result in a material decline in the market price of our common stock. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been brought against that company. We are currently involved with, and in future may become exposed to more of, this type of class action litigation. Securities litigation is often expensive to defend or settle and could divert management's attention and operational resources, which could have a material adverse effect on our business, even if we ultimately prevail in the litigation.

***We may issue a substantial number of shares of our common stock in the future, and stockholders may be adversely affected by the issuance of those shares.***

From time to time in the future we may raise additional capital by issuing shares of our common stock or securities convertible into shares of our common stock, which would increase the number of shares outstanding and may result in dilution in the equity interest of our current stockholders and may adversely affect the market price of our common stock. We filed two shelf registration statements in 2013 which allow us to issue up to \$70 million in any combination of common stock, preferred stock, warrants and units in offerings for cash, less the amount we raised in our 2013 public offering, and in connection with acquisitions to issue up to 2.5 million shares of common stock, less shares we have issued under that shelf registration statement in acquisitions. Shares issued under either shelf registration statement would be freely tradable upon issuance. The shelf registration statements expire in May 2016. In addition, from time to time we may issue shares of our common stock or securities convertible into

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common stock pursuant to exemptions under the Securities Act registration requirements that we register for resale. Under the terms of the Merger Agreement, we would need to obtain Southern Company's prior written consent to issue any shares under either of these shelf registration statements or otherwise.

The issuance, and the resale or potential resale, of shares of our common stock or securities convertible into or exchangeable for shares of our common stock in connection with acquisitions, offerings or otherwise could adversely affect the market price of our common stock, and could be dilutive to our stockholders depending on the use of proceeds, the performance of the acquired business and other factors.

### **Risks Related to the Merger**

***The Merger is subject to receipt of consent or approval from governmental entities that could delay or prevent the completion of the merger or, in order to receive such consent or approval, the governmental entities may impose restrictions or conditions that could have a material adverse effect on the combined company or that could cause the companies to terminate the transaction.***

Our stockholders will be asked to vote on the approval of the Merger Agreement at a stockholders meeting that will be held on a date to be announced. Consummation of the Merger is subject to various closing conditions, including, among others (i) the approval of the Merger Agreement by the affirmative vote of the holders of a majority of all outstanding shares of our common stock, (ii) the receipt of all regulatory approvals required to consummate the Merger, including expiration or termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, (iii) the absence of any law or injunction prohibiting the consummation of the Merger, and (iv) other customary closing conditions, including (a) the accuracy of each party's representations and warranties (subject to customary materiality qualifiers), (b) each party's performance in all material respects with its obligations under the Merger Agreement, and (c) no material adverse effect (as defined in the Merger Agreement) on us having occurred. The Merger is not subject to any financing condition.

If the Merger is consummated, holders of shares of our common stock will have no on-going equity in the surviving corporation, will cease to participate in our future earnings and growth and will not benefit from any future increases in the value of PowerSecure.

We may not receive the required approvals and other clearances for the merger, or we may not receive them in a timely manner. If such approvals and clearances are received, they may impose terms, conditions or restrictions (i) that cause a failure of the closing conditions set forth in the Merger Agreement, which could permit us or Southern Company to terminate the Merger Agreement and abandon the transaction or (ii) that could reasonably be expected to have a detrimental impact on the combined company following completion of the merger. A substantial delay in obtaining the required authorizations, approvals or consents or the imposition of unfavorable terms, conditions or restrictions contained in such authorizations, approvals or consents could prevent the completion of the merger or have an adverse effect on the anticipated benefits of the Merger, thereby impacting the business, financial condition or results of operations of the combined company.

Even after the expiration of the waiting period under the Hart-Scott-Rodino Act, governmental authorities could seek to block or challenge the Merger as they deem necessary or desirable in the public interest.

***Failure to complete the Merger could adversely affect our stock price, future business operations and financial results.***

Completion of the Merger is subject to risks, including the risks that approval of the transaction by our shareholders or by governmental agencies will not be obtained or that certain other closing conditions will not be satisfied. If we are unable to complete the Merger, our ongoing business may be adversely affected and we would be subject to a number of risks, including the following:

we will have paid certain significant transaction costs, including legal, financial advisory and filing, printing and mailing fees, and in certain circumstances, a termination fee to Southern Company of \$12,000,000;

the attention of our management may have been diverted to the merger rather than to our operations and the pursuit of other opportunities that could have been beneficial to us;

the potential loss of key personnel during the pendency of the merger as employees may experience uncertainty about their future roles with the combined company;

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we will have been subject to certain restrictions on the conduct of our business, which may prevent us from making certain acquisitions or dispositions or pursuing certain business opportunities while the merger is pending; and

the trading price of our common stock may decline to the extent that the current market price reflects a market assumption that the merger will be completed.

A failure to complete the merger may also result in negative publicity, additional litigation against the company or its directors and officers, and a negative impression of our company in the investment community. The occurrence of any of these events individually or in combination could have a material adverse effect on our results of operations or the trading price of our common stock.

***We are subject to contractual restrictions in the Merger Agreement that may hinder operations pending the merger.***

The Merger Agreement restricts us, without Southern Company's prior written consent, from taking certain specified actions until the Merger occurs or the Merger Agreement terminates. For instance, we are limited in the amount of indebtedness for borrowed money we may incur and additional common shares of common stock that we may issue. These restrictions may prevent us from pursuing otherwise attractive business opportunities and making other changes to our business prior to completion of the merger or termination of the Merger Agreement.

***We will be subject to various uncertainties while the Merger is pending that may cause disruption and may make it more difficult to maintain relationships with employees, suppliers or customers.***

Uncertainty about the effect of the Merger on employees, suppliers and customers may have an adverse effect on us. Although we intend to take steps designed to reduce any adverse effects, these uncertainties may impair our abilities to attract, retain and motivate key personnel until the Merger is completed and for a period of time thereafter, and could cause customers, suppliers and others that deal with us to seek to change or terminate existing business relationships with us or not enter into new relationships or transactions.

Employee retention and recruitment may be particularly challenging prior to the completion of the Merger, as employees and prospective employees may experience uncertainty about their future roles with the combined company. If, despite our retention and recruiting efforts, key employees depart or fail to continue employment with us because of issues relating to the uncertainty and difficulty of integration or a desire not to remain with the combined company, our financial results could be adversely affected. Furthermore, the combined company's operational and financial performance following the Merger could be adversely affected if it is unable to retain key employees and skilled workers. The loss of the services of key employees and skilled workers and their experience and knowledge regarding our business could adversely affect the combined company's future operating results and the successful ongoing operation of its businesses

***Potential future litigation against us and our directors challenging the Merger may prevent the merger from being completed within the anticipated timeframe.***

As is a common result of public company mergers, we and our directors may potentially be named as defendants in consolidated state class action lawsuits and potentially substantially similar federal class action lawsuits filed on behalf of public shareholders challenging the merger and potentially seeking, among other things, to enjoin us from consummating the Merger on the agreed-upon terms. If a plaintiff in a potential lawsuit or any other litigation that may be filed is successful in obtaining an injunction prohibiting the parties from completing the Merger on the terms contemplated by the Merger Agreement, the injunction may prevent the completion of the Merger in the expected

timeframe or altogether.

**Item 1B. Unresolved Staff Comments**

None.

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### **Item 2. Properties**

We own our corporate headquarters and principal executive and operating offices, including the land and building, which are located in Wake Forest, North Carolina. The building consists of approximately 31,000 square feet and sits on approximately 2.65 acres of land. We also own an 11,770 square foot pre-engineered steel building, which sits on approximately 16.65 acres of land, in Randleman, North Carolina that we use for fabrication activities. These properties are subject to deeds of trust granted under our credit facility, as described in the notes to our consolidated financial statements included elsewhere in this report.

In addition, we lease 27 facilities located in North Carolina, South Carolina, Georgia, Florida, Oklahoma, Connecticut, Pennsylvania, Virginia, Massachusetts and Maryland. The facilities, which consist of approximately 155,000 square feet in the aggregate, are used primarily as offices but also for operations. The leases on these facilities have an aggregate monthly rental obligation of approximately \$154,000 and expire at various dates through 2021.

We believe our facilities are suitable and adequate to meet our current needs, although our anticipated growth may require us to obtain additional space in the future. We continually monitor our facilities requirements, and we believe that any additional space needed in the future will be available on commercially reasonable terms.

### **Item 3. Legal Proceedings**

On May 22, 2014, a putative securities class action lawsuit was filed against us and certain of our executive officers in the United States District Court for the Eastern District of North Carolina. Subsequently, in May and in July 2014, two additional purported securities class action lawsuits were filed against the same defendants in the United States District Courts, one in the Eastern District of North Carolina and the other in the Western District of North Carolina. On October 10, 2014, these lawsuits were consolidated in the United States District Court for the Eastern District of North Carolina, and a lead plaintiff was appointed. As consolidated, the lawsuit was filed on behalf of all persons or entities that purchased our common stock during a purported class period from August 8, 2013 through May 7, 2014, which is the longer of the two different purported class periods used in the pre-consolidation lawsuits. A consolidated amended complaint was filed on December 29, 2014. The action alleges that certain statements made by the defendants during the class period violated federal securities laws and seeks damages in an unspecified amount.

We filed a motion to dismiss the amended complaint on February 26, 2015, which the court granted on September 15, 2015, with leave for the plaintiff to file an amended complaint. On October 16, 2015, the plaintiff filed a second amended consolidated class action complaint, with similar allegations over the same class period. On November 23, 2015, we filed a motion to dismiss the second amended complaint, and the briefing on that motion concluded on February 5, 2016. We cannot provide any assurance as to when the court will rule on our motion to dismiss the second amended complaint or whether our motion will be granted, and even if granted whether the complaint will be dismissed with prejudice or appealed.

On August 15, 2014, a shareholder derivative complaint was filed against certain of our executive officers and each of our directors during the class period in the United States District Court for the Eastern District of North Carolina. The complaint alleges breach of fiduciary duty, waste of corporate assets and unjust enrichment by the named officers and directors in connection with substantially the same events as set forth in the class action lawsuit, seeking damages in an unspecified amount. On November 26, 2014, based on mutual agreement of the parties to the lawsuit, the court ordered that proceedings under the complaint be stayed until resolution of the securities class action litigation.

While we believe that we have substantial legal and factual defenses to the claims in the class action and we are pursuing these defenses vigorously the outcome of this litigation is difficult to predict and quantify, and the defense

against such claims could be costly. In addition, we have various insurance policies related to the risk associated with our business, including directors and officers liability insurance policies. However, there is no assurance that we will be successful in our defense of the securities class action, and there is no assurance that our insurance coverage will be sufficient or that our insurance carriers will cover all claims in that litigation. If we are not successful in our defense of the claims asserted in the securities class action and the claims are not covered by insurance or exceed our insurance coverage, we may have to pay damage awards, indemnify our officers and directors from damage awards that may be entered against them and pay the costs and expenses incurred in defense of, or in any settlement of, such claims.

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While the company is only a nominal defendant in the shareholder derivative litigation, it could be obligated to indemnify and/or to pay an advancement of fees and costs incurred by our officers and directors in their defense of the litigation.

Any such payments or settlement arrangements in these current lawsuits or related litigation or proceedings could be significant and have a material adverse effect on our business, financial condition, results of operations, or cash flows if the claims are not covered by our insurance carriers or if damages exceed the limits of our insurance coverage. Furthermore, regardless of the outcome of these claims, defending the litigation itself could result in substantial costs and divert management's attention and resources, which could have a material adverse effect on our business, operating results, financial condition and ability to finance our operations.

The SEC is conducting an informal inquiry that currently appears to be focused on our interpretation and application of ASC 280, Segment Reporting, in regards to our identification of operating and reportable segments since 2012, but may be broader in scope. We are cooperating with the SEC in this matter, including consultation with the Office of Chief Accountant of the SEC, and in connection therewith have reported on our re-assessment of our segment reporting in fiscal years 2012-2014 in Item 9A Controls and Procedures. There is no assurance that the scope of this inquiry is currently limited to segment reporting or that it will not be expanded in the future. In addition, the outcome of this inquiry could be unfavorable to us and adversely affect our business, financial condition or operating results.

From time to time, we are also involved in a variety of other claims, lawsuits, investigations, actions and other legal proceedings arising in the ordinary course of our business, including actions with respect to labor and employment, taxes, breach of contract, professional liability and other matters.

For further information about material pending legal proceedings, see Note 11, Commitments and Contingencies of the notes to our consolidated financial statements included elsewhere in this report, which is incorporated herein by reference.

### **Item 4. Mine Safety Disclosures**

Not applicable.



Table of Contents**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities****Market Information for Our Common Stock**

Our common stock is listed and traded on the New York Stock Exchange under the symbol POWR. The following table sets forth the high and low sales prices per share of our common stock, as reported on the New York Stock Exchange for the periods indicated.

| <b>Fiscal Year 2015 Quarters Ended:</b> | <b>High</b> | <b>Low</b> |
|---|-------------|------------|
| March 31                                | \$ 13.35    | \$ 9.10    |
| June 30                                 | 16.00       | 12.41      |
| September 30                            | 16.94       | 10.41      |
| December 31                             | 15.74       | 10.87      |
| <br>                                    |             |            |
| <b>Fiscal Year 2014 Quarters Ended:</b> | <b>High</b> | <b>Low</b> |
| March 31                                | \$ 27.44    | \$ 16.09   |
| June 30                                 | 24.20       | 6.41       |
| September 30                            | 12.19       | 8.32       |
| December 31                             | 11.75       | 8.17       |

On February 24, 2016, the last sale price of our common stock as reported on the New York Stock Exchange prior to the announcement of the Merger was \$9.87 per share. On March 11, 2016, the last sale price of our common stock as reported on the New York Stock Exchange was \$18.62.

**Stockholders**

As of March 11, 2016, there were 133 stockholders of record of our common stock. Such number of record stockholders does not include additional stockholders whose shares are held in street or nominee name by banks, brokerage firms and other institutions on their behalf.

**Dividends**

We have never declared or paid any cash dividends on our common stock and do not intend to do so in the near future. Under the terms of the Merger Agreement, we are prohibited from paying cash dividends without the consent of Southern Company.

**Issuer Purchases of Equity Securities**

During the three months ended December 31, 2015, we did not repurchase any shares of our common stock. As of December 31, 2015, we were not authorized to purchase any shares of our common stock under our previous stock repurchase program, which expired in December 2014. Under the terms of the Merger Agreement, we are prohibited from repurchasing any shares of our common stock without the consent of Southern Company.



**Table of Contents****Item 6. Selected Financial Data**

The selected consolidated financial data in the following tables have been derived from our audited consolidated financial statements. The consolidated statements of income data for the years ended December 31, 2015, 2014 and 2013, and the consolidated balance sheet data as of December 31, 2015 and 2014, have been derived from our audited consolidated financial statements and the related notes thereto included beginning on page F-1 of this report. The consolidated statements of income data for the years ended December 31, 2012 and 2011, and the consolidated balance sheet data as of December 31, 2013, 2012 and 2011, have been derived from our audited consolidated financial statements and the related notes thereto not included in this report.

The historical results presented below are not necessarily indicative of the results to be expected from our future operations and should be read in conjunction with Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and our audited consolidated financial statements and the related notes thereto included beginning on page F-1 of this report.

| <b>Consolidated Statements of<br/>Operations Data:</b>  | <b>Year Ended December 31,</b>                  |             |             |             |             |
|---|---|-------------|-------------|-------------|-------------|
|   | <b>2015</b>                                     | <b>2014</b> | <b>2013</b> | <b>2012</b> | <b>2011</b> |
|   | <b>(In thousands, except per share amounts)</b> |             |             |             |             |
| Revenues  | \$ 443,701                                      | \$ 256,657  | \$ 270,234  | \$ 162,039  | \$ 130,015  |
| Cost of sales (excluding depreciation and amortization) | 342,529   | 192,088     | 198,651     | 110,953     | 89,321      |
| Gross profit  | 101,172   | 64,569      | 71,583      | 51,086      | 40,694      |
| Operating expenses:                                     |   |             |             |             |             |
| General and administrative                              | 66,801  | 56,419      | 47,071      | 36,201      | 33,652      |
| Selling, marketing and service                          | 11,523  | 8,890       | 7,381       | 5,560       | 4,651       |
| Depreciation and amortization                           | 10,525  | 8,902       | 7,287       | 4,780       | 3,423       |
| Restructuring charges                                   | 1,291   | 427         | 1,205       | 2,675       |             |
| Total operating expenses                                | 90,140  | 74,638      | 62,944      | 49,216      | 41,726      |
| Operating income (loss)                                 | 11,032  | (10,069)    | 8,639       | 1,870       | (1,032)     |
| Other income and (expenses):                            |   |             |             |             |             |
| Gain on sale of unconsolidated affiliate                |   |             |             | 1,439       | 21,873      |
| Equity income   |   |             |             |             | 1,559       |
| Management fees   |   |             |             |             | 282         |
| Interest income and other income                        | 6   | 215         | 81          | 88          | 98          |
| Interest expense  | (1,141)   | (1,236)     | (817)       | (449)       | (575)       |
| Income (loss) before income taxes                       | 9,897   | (11,090)    | 7,903       | 2,948       | 22,205      |
| Income tax expense (benefit)                            | 4,058   | (4,098)     | 3,672       | 850         | 3,134       |
| Income (loss) from continuing operations                | 5,839   | (6,992)     | 4,231       | 2,098       | 19,071      |
| Income from discontinued operations (1)                 |   |             |             | 78          | 4,133       |
| Net income (loss)                                       | 5,839   | (6,992)     | 4,231       | 2,176       | 23,204      |
|   |   |             | 181         | 902         | 846         |

Net (income) loss attributable to noncontrolling interest

|   |          |            |          |          |           |
|---|----------|------------|----------|----------|-----------|
| Net income (loss) attributable to PowerSecure International, Inc. | \$ 5,839 | \$ (6,992) | \$ 4,412 | \$ 3,078 | \$ 24,050 |
|---|----------|------------|----------|----------|-----------|

(1) *During fiscal 2011, our Board of Directors approved a plan to exit our PowerPackages business and the majority of its assets and liabilities were liquidated and its operations ceased in 2011. During fiscal 2010, our Board of Directors approved a plan to sell our Southern Flow business and all of its assets and operations were sold effective January 1, 2011. The operations of PowerPackages and Southern Flow have been classified as discontinued operations for all periods presented. In addition, certain other amounts prior to fiscal 2015 have been reclassified to conform to fiscal 2015 presentation. Such reclassifications had no impact on our net income or stockholders equity.*

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| <b>Consolidated Statements of Operations Data (continued):</b> | <b>Year Ended December 31,</b>                  |             |             |             |             |
|--|---|-------------|-------------|-------------|-------------|
|  | <b>2015</b>                                     | <b>2014</b> | <b>2013</b> | <b>2012</b> | <b>2011</b> |
|  | <b>(In thousands, except per share amounts)</b> |             |             |             |             |
| <b>Per Share Data:</b>   |   |             |             |             |             |
| Basic earnings (loss) per common share:                        |   |             |             |             |             |
| Income (loss) from continuing operations                       | \$ 0.26   | \$ (0.31)   | \$ 0.22     | \$ 0.16     | \$ 1.05     |
| Income from discontinued operations                            |   |             |             |             | 0.22        |
| Basic earnings (loss) per common share                         | \$ 0.26   | \$ (0.31)   | \$ 0.22     | \$ 0.16     | \$ 1.27     |
| Diluted earnings (loss) per common share:                      |   |             |             |             |             |
| Income (loss) from continuing operations                       | \$ 0.26   | \$ (0.31)   | \$ 0.22     | \$ 0.16     | \$ 1.04     |
| Income from discontinued operations                            |   |             |             |             | 0.22        |
| Diluted earnings (loss) per common share                       | \$ 0.26   | \$ (0.31)   | \$ 0.22     | \$ 0.16     | \$ 1.26     |
| Weighted average common shares outstanding:                    |   |             |             |             |             |
| Basic  | 22,449  | 22,263      | 19,837      | 18,681      | 18,877      |
| Diluted  | 22,572  | 22,263      | 20,160      | 18,818      | 19,139      |
| <b>Consolidated Balance Sheet Data:</b>                        |   |             |             |             |             |
|  | <b>2015</b>                                     | <b>2014</b> | <b>2013</b> | <b>2012</b> | <b>2011</b> |
|  | <b>(In thousands, except per share amounts)</b> |             |             |             |             |
| Cash and cash equivalents                                      | \$ 18,433                                       | \$ 33,775   | \$ 50,915   | \$ 19,122   | \$ 24,606   |
| Working capital  | 75,880  | 70,798      | 105,103     | 59,242      | 69,381      |
| Total assets   | 335,815   | 265,115     | 255,491     | 159,147     | 142,575     |
| Long-term capital lease obligations                            |   |             | 986         | 1,921       | 2,807       |
| Revolving line of credit and long-term debt                    | 14,187  | 17,730      | 21,563      | 2,080       |             |
| Total stockholders' equity                                     | 165,488   | 156,369     | 159,587     | 110,999     | 112,462     |

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**Table of Contents****Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*The discussion in this item, as well as in other items in this Annual Report on Form 10-K, contains forward-looking statements within the meaning of and made under the safe harbor provisions of Section 27A of the Securities Act and Section 21E of the Exchange Act. Forward-looking statements are all statements other than statements of historical facts, including statements that refer to plans, intentions, objectives, goals, strategies, hopes, beliefs, projections and expectations or other characterizations of future events or performance, and assumptions underlying the foregoing. Forward-looking statements are not guarantees of future performance or events, but are subject to and qualified by known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those expressed, anticipated or implied by such forward-looking statements, including those risks, uncertainties and other factors described in Item 1A, Risk Factors of this report, as well as other risks, uncertainties and factors discussed elsewhere in this report, in documents that we include as exhibits to or incorporate by reference in this report, and in other reports and documents that we from time to time file with or furnish to the SEC. See Cautionary Note Regarding Forward-Looking Statements at the beginning of this report.*

On February 24, 2016, we entered into the Merger Agreement with Southern Company and a wholly-owned subsidiary of Southern Company, which we refer to as the Merger Sub, providing for the merger of the Merger Sub with and into PowerSecure, with PowerSecure surviving as a wholly-owned subsidiary of Southern Company. At the effective time of the merger, subject to receipt of required shareholder and regulatory approvals, and meeting specified customary closing conditions, each share of our common stock will be converted automatically into the right to receive into the right to receive \$18.75 in cash, without interest, less any applicable withholding taxes. In the Merger Agreement, we agreed to covenants affecting the conduct of our business between the date of the Merger Agreement and the effective date of the Merger. For additional information relating to this merger, see Cautionary Note Regarding Forward-Looking Statements, Item 1A, Risk Factors, and Note 2 to our consolidated financial statements in this report.

The following discussion and analysis of our consolidated results of operations for the years ended December 31, 2015, 2014 and 2013, and of our consolidated financial condition as of December 31, 2015 and 2014, should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K.

**Overview**

PowerSecure International, Inc., headquartered in Wake Forest, North Carolina, is a leading provider of products and services to electric utilities, and their large commercial, institutional and industrial customers.

We currently provide products and services through the following reportable segments: our Distributed Generation segment, our Solar Energy segment, our Utility Infrastructure segment, and our Energy Efficiency segment. These reportable segments constitute our major product and services offerings, each of which are focused on serving the needs of utilities and their commercial, institutional and industrial customers to help them generate, deliver, and utilize electricity more reliably and efficiently.

Our strategy is focused on growing these segments because they require unique knowledge and skills that utilize our core competencies, and because they address large market opportunities due to their strong customer value propositions. They share common or complementary utility relationships and customer types, common sales and overhead resources, and facilities. However, we discuss and distinguish our operations among these segments due to their unique products and services, market needs they are addressing, cost structure, and the distinct technical disciplines and specific capabilities required for us to deliver them, including personnel, technology, engineering, and intellectual capital.

We currently operate primarily out of our Wake Forest, North Carolina headquarters office, and our operations also include several satellite offices and manufacturing facilities, the largest of which are in the Raleigh-Durham and Greensboro, North Carolina, Atlanta, Georgia, Bethlehem, Pennsylvania, and Stamford, Connecticut areas. The locations of our sales organization and field employees for our operations are generally in close proximity to the utilities and commercial, industrial, and institutional customers they serve. Our reportable segments are operated through our principal operating wholly-owned subsidiary, PowerSecure, Inc.

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### *Distributed Generation*

Our Distributed Generation segment manufactures, installs and operates electric generation equipment on site at a facility where the power is used, including commercial, institutional and industrial operations. Our Distributed Generation systems typically utilize our proprietary PowerBlock units or, alternatively, generators sourced from major global generator manufacturers as the power plants for our systems. Our systems provide a highly dependable backup power supply during power outages, and provide a more efficient and environmentally friendly source of power during high cost periods of peak power demand. These two sources of value benefit both utilities and their large customers.

Our Distributed Generation systems are sold to customers utilizing two basic economic models, each of which can vary depending on the specific customer and application. In our traditional business model, which is our predominant model, we sell the Distributed Generation system to the customer. We refer to this as a project-based or a customer-owned model. For Distributed Generation systems sold under the project-based model, the customer acquires ownership of the Distributed Generation assets upon our completion of the project. Our revenues and profits from the sale of systems under this model are recognized over the period during which the system is installed. In the project-based model, after the system is installed we will also usually receive a modest amount of on-going monthly revenues to monitor the system for backup power and peak shaving purposes, as well as to maintain the system.

Our second business model is structured to generate long-term recurring revenues for us, which we refer to as our recurring revenue model or PowerSecure-owned or company-owned model. For Distributed Generation systems deployed under this model, we retain ownership of the Distributed Generation system after it is installed at the customer's site. Because of this, we invest the capital required to design and build the system, and our revenues are derived from regular fees paid over the life of the recurring revenue contract by the utility or the customer, or both, for access to the system for standby power and peak shaving. The life of these recurring revenue contracts is typically from five to fifteen years. The fees that generate our revenues in the recurring revenue model are generally paid to us on a monthly basis and are established at amounts intended to provide us with attractive returns on the capital we invest in installing and maintaining the Distributed Generation system. Our fees for recurring revenue contracts are generally structured as shared savings arrangements, although they can also be structured with fixed monthly payments. For our shared savings contracts, a portion or all of our fees are earned out of the pool of peak shaving savings the system creates for the customer.

In both economic models, we believe that the customer value proposition is strong. In the customer-owned model, where the customer pays for and obtains ownership of the system, the customer's typical targeted returns on investment range from 15% to 25%, with a payback targeted at three to five years. These paybacks to the customer result from a combination of the benefits of peak shaving, which creates lower total electricity costs, and the value that the backup power provides in avoiding losses from business interruptions due to power outages. Additionally, utilities gain the benefits of smoother electricity demand curves and lower peaks, as the result of having highly reliable standby power supporting customers in their utility systems, power distribution and transmission efficiencies, and of avoiding major capital outlays that would have been required to build centralized power plants and related infrastructure for peaking needs. In our PowerSecure-owned model, where we pay for, install and maintain ownership of the system in exchange for the customer paying us fees over a period of years, and utilities and their customers receive access to our system without making a large up-front investment of capital. Under the PowerSecure-owned model, contracts can be structured between us and the utility, us and the customer, or all three parties.

In 2015, 87.7% of our Distributed Generation systems revenues consisted of customer-owned system sales, and 12.3% of our Distributed Generation systems revenues were derived from recurring revenue sales. Sales of customer-owned systems deliver revenues and profits that are recorded on our financial statements over the course of the project, which



is generally over a three to 18 month timeframe depending on the size of the project, and sales of PowerSecure-owned projects are recorded over a longer time frame of five to 15 years depending on the life of the underlying contract. Therefore, shifts in the sales of customer-owned versus PowerSecure-owned systems have significant impacts on our near-term revenues and profits and cause them to fluctuate from period-to-period. An additional contrast of the two models is that sales under the PowerSecure-owned system model generate revenues and profits that are more consistent from period-to-period and have higher gross margins, and generate revenues and profits over a longer time period, although smaller in dollar amount in any particular period because they are recognized over the life of the contract. Our PowerSecure-owned recurring revenue model requires us to invest our own capital in the project without any return on capital until after the project is completed, installed, commissioned and successfully operating.

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We have developed, and since 2015 have been offering, sophisticated energy storage solutions, which support a microgrid and enable a customer to integrate solar and other generation sources with our control solutions. Our energy storage solutions, including battery storage solutions, enable the enhanced utilization of renewable energy sources, designed to improve the reliability and quality of alternative energy sources such as solar or wind power. Our typical energy storage solution is intended to help leverage a customer's renewable energy investment in a number of ways, such as by providing output firming, which stabilizes power against variances in meteorological conditions. Another advantage of our solutions is power smoothing, which improves power quality and eliminates harmonics, rapid voltage swings and frequency deviations. Our energy storage solutions can be combined with our Distributed Generation or Solar Energy systems to provide the benefits of those solutions, including peak shifting and fast and reliable standby power. In addition, our energy storage solutions are scalable, flexible and technology-neutral to meet the needs of our customers.

Our Energy Storage solutions are sold to customers under the project-based model, the customer acquires ownership of the Energy Storage system upon our completion of the project. Our revenues and profits from the sale of systems under this model are recognized over the period during which the system is installed.

### ***Solar Energy***

Our Solar Energy segment is operated primarily by our PowerSecure Solar subsidiary. Our Solar Energy systems use photovoltaic solar panels (which we do not manufacture) to provide utilities and their customers with environmentally friendly power to augment their core power requirements. Our PowerSecure Solar team provides us with the ability to deliver Solar Energy systems integrated with our Distributed Generation and Energy Storage solutions platform. These Solar Energy systems are sold under the project-based, customer-owned model. We are engaged to design, source, procure, build and install Solar Energy systems and projects, for utilities and their customers or for developers and their customers. We are generally paid a fixed contractual price for these projects, plus any modifications or scope additions. We recognize revenues from these projects on an output method using percentage-of-completion basis.

Our Solar Energy business has recently significantly expanded under awards from Georgia Power, one of the largest investor-owned utilities in the U.S., to provide utility-scale solar installations that we currently expect to generate a total of approximately \$120 million in revenues during 2015 and 2016, including revenues from such projects that we have already recognized.

In July 2014, we entered into two Engineering, Procurement and Construction Agreements ( EPC Contracts ) with Georgia Power. In July 2015, we entered into a third EPC Contract with the Georgia Power. We were previously notified by Georgia Power that the size and scope of the solar project contemplated by the July 2015 EPC Contract may be reduced, due to a change in the utility customer's requirements, or could be terminated. Accordingly, we have been in discussions with Georgia Power regarding the status of the project and currently believe that the EPC Contract may be terminated entirely. As of the date of this report, the July 2015 EPC Contract has not been amended, restated or terminated, and the underlying solar project has not been definitively modified. In November 2015, based on the information available as of that time, we estimated that the associated revenues from the project would be reduced from the initial \$85 million project size to approximately \$60 million. Based on more recent information we have received, we currently estimate that no revenue will be generated by the July 2015 EPC Contract and, accordingly, have removed it entirely from revenue backlog as discussed below in this item under Backlog .

### ***Utility Infrastructure***

Our Utility Infrastructure reportable segment is focused on helping electric utilities design, build, upgrade and maintain infrastructure that enhances the efficiency of their grid systems.

On February 8, 2016, we entered into a five-year MSA with the Bahamas Power and Light Company, a wholly owned subsidiary of Bahamas Electricity Corporation, the government owned electric utility for The Bahamas (excluding Grand Bahama), to assist BPL to conduct its operations as the electric utility for The Bahamas, manage the Bahamas electric infrastructure, and enhance its overall electric generation system and supply. The MSA includes a business plan which outlines cost-reduction and reliability targets along with renewable energy and customer service initiatives.

Our largest source of revenue within our Utility Infrastructure segment is our UtilityServices products and services. We have significantly expanded our UtilityServices scope of utility relationships, customers and geography over the last few years. Our UtilityServices team provides utilities with transmission and distribution system construction and maintenance, including substation construction and maintenance, advanced metering and lighting installations, and storm restoration. In addition to providing these services directly to utilities, we also perform this work on behalf of utilities for their large industrial and institutional customers, and directly to large oil and gas companies. Similar to the products and services we provide for utilities, our work for large utility customers includes turn-key design, procurement and construction services for large transmission and distribution projects, including substations. Our resources include a fleet of owned and leased utility vehicles along with experienced field personnel and engineers, and we also utilize third party resources from time to time, as needed, to supplement our internal resources on particular projects.

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Through our Encari, UtilityEngineering and PowerServices teams, we serve the engineering and consulting needs of our utility clients, broadening our offerings to our utility partners. The scope of services that we offer through UtilityEngineering includes technical engineering services for our utility partners and their customers, including design and engineering relating to virtually every element of their transmission and distribution systems, substations and renewable energy facilities. Through PowerServices, we provide management consulting services to utilities and commercial and industrial customers, including planning and quality improvement, technical studies involving reliability analysis and rate analysis, acquisition studies, accident investigations and power supply contracts and negotiations. Our Encari business provides cybersecurity consulting and compliance services to the utility industry, helping large investor owned utilities ( IOUs ), municipalities and cooperative utilities assess, improve and maintain their compliance with the NERC's CIP Reliability Standards.

Revenues for our UtilityServices products and services are generally earned, billed, and recognized using two primary models. Under the first model, we have regular, on-going assignments with utilities to provide maintenance and upgrade services. These services are earned, billed, and recognized either on a fixed unit fee basis, based on the number of work units we perform, such as the number of transmission poles we upgrade, or on a time and materials basis, based on the number of hours we invest in a particular project, plus amounts for the materials we utilize and install. Under the second model, we are engaged to design, build and install large infrastructure projects, including substations, transmission and distribution lines and similar infrastructure, for utilities and their customers. In these types of projects we are generally paid a fixed contractual price for the project, plus any modifications or scope adjustments. We recognize revenues from these projects on a percentage-of-completion basis. In addition to these two primary models, in the future we could be engaged by utilities and their customers to build or upgrade transmission and distribution infrastructure that we own and maintain. In those cases, we would receive fees over a long-term contract in exchange for providing the customer with access to the infrastructure to transmit or receive power.

Revenues for our Encari, UtilityEngineering and PowerServices consulting services are earned, billed, and recognized based on the number of hours invested in the particular projects and engagements they are serving. Similar to most traditional consulting businesses, these hours are billed at rates that reflect the general technical skill or experience level of the consultant or supervisor providing the services. In some cases, our engineers and consultants are engaged on an on-going basis with utilities, providing resources to supplement utilities' internal engineering teams over long-term time horizons. In other cases, our engineers and consultants are engaged to provide services for very specific projects and assignments.

***Energy Efficiency***

We deliver Energy Efficiency solutions to assist our customers in the achievement of their energy efficiency goals. We have two primary Energy Efficiency product and service offerings: light emitting diode, or LED, lighting fixtures and lamps, and energy efficiency upgrades for large energy services companies, referred to as ESCO customers, and large retailers. Our LED lighting solutions are primarily focused on the utility, commercial and industrial markets, while our energy efficiency solutions are primarily focused on serving Energy Services Companies ( ESCO ) and retail channels. We have begun including our Distributed Generation products and services in our Energy Efficiency Services solutions. In the future, we also plan to bring our LED lighting solutions to our ESCO and retail customer base. In both of our Energy Efficiency product and service lines we deliver highly engineered product solutions and upgrades with strong value propositions that are designed to reduce energy costs, improve operations and benefit the environment.

Our LED lighting products include our PowerSecure Lighting, Solais, EfficientLights, IES and EnergyLite operations and brands, all of which are focused on bringing LED lighting solutions to the marketplace. As a result of our acquisition of Solais in 2013, we realigned and consolidated these operations into PowerSecure Lighting, which is

now leading all of our LED operations, although we may continue to have legacy brands in the marketplace for a period of time. In 2013, we acquired our Energy Efficiency Services business, which gives us the capability to provide general lighting, building envelope, HVAC and water efficiency solutions to ESCOs, which deliver these energy efficiency solutions to commercial, industrial and institutional facilities. On September 2, 2014, we acquired the retail energy services operations of Apex Controls, Inc. ( Apex ). The acquired operations provides retrofit and electrical contracting services to major retailers, in most cases through general contractors, and provides us with the capacity to provide our Energy Efficiency Services solutions to large retailers. On December 1, 2015, we expanded our energy efficiency operations through the acquisition of ESCO Energy Services Company, Inc., a private company based in Lennox, Massachusetts that provides energy efficiency facilities services to business, government agencies and other institutions across the United States.

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Our LED lighting products, led by our PowerSecure Lighting team, include the following:

Our Solais brand, which includes LED-based lamps and fixtures for department stores and other commercial applications. The 2013 acquisition of Solais strengthened and complemented our existing LED lighting business through the addition of these new product lines and customer channels. This acquisition also enhanced our skill sets around product design, product commercialization, and manufacturing and sourcing capabilities.

Our EfficientLights brand, which includes LED-based lighting fixtures for grocery, drug and convenience stores. EfficientLights products include our EfficientLights fixture for reach-in refrigerated cases, shelf and canopy lighting for open refrigerated cases, overhead lighting for walk-in storage coolers.

Our IES brand, which includes LED-based lighting fixtures for utilities, commercial and industrial, and OEM applications. IES products include street lights, area lights, indoor overhead lighting, and other specialty lighting applications.

Our EnergyLite brand, which is used to market our IES and EfficientLights brands primarily, but we may also use it from time to time for other LED lighting products. EnergyLite's products are marketed to customers and utilities directly, and through third party distribution arrangements.

The primary client base for our Energy Efficiency Services business consists of large, publicly-traded ESCOs. Through our relationships with these ESCOs, we provide facility upgrades for public sector customers, including federal, state and local government agencies and educational institutions. As ESCOs are awarded project contracts with public sector clients, we assist them by providing energy efficiency expertise to develop and implement tailored solutions under their contracts. From time to time, we also serve larger retail, commercial and industrial clients for which we provide our products and services directly, when an ESCO is not involved in the customer relationship.

We focus on deploying solutions to improve the energy efficiency of large facilities, including reducing energy-related expenditures, and the impact of energy use on operations and the environment. This helps the ESCO's customers save money, improve facilities and meet energy efficiency goals and mandates. Our solutions include energy efficient lighting upgrades, energy efficient mechanical and electrical retrofit and upgrade services, water conservation, building weatherization, and renewable energy project development and implementation. We provide energy solutions across a range of facilities, including high-rise office buildings, distribution facilities, manufacturing plants, retail sites, multi-tenant residential buildings, mixed use complexes, hospitals, universities and large government sites. We plan to continue to offer our Distributed Generation and LED lighting products as part of these solutions.

Our LED lighting revenues are generated through the sale of LED-based light fixtures and lamps. Our portfolio of products consists exclusively of our proprietary designs, which are generally focused on very specific applications. These applications require our lights to be highly engineered to maximize the quality, and amount of light produced, at the lowest cost. This formula, in turn, enables us to provide our customers with lighting that maximizes the return on investment for their lighting spend. We design and manufacture our LED-based lights for utilities, commercial and industrial customers. Our lighting generally reduces energy consumption by 60-70%, improves the quality of light,

reduces maintenance expense, extends light life, lowers a facilities carbon footprint, and eliminates the use of traditional lighting which can contain environmental hazards.

Our LED lighting product line includes:

LED-based lamps and fixtures for department stores and other commercial applications, including display and down-lighting;

LED-based lighting fixtures for grocery, drug and convenience stores, including lights for reach-in refrigerated cases, shelf and canopy lighting for open refrigerated cases, and overhead lighting for walk-in storage coolers; and

LED-based lighting fixtures for utilities, commercial and industrial, and OEM applications, including street lights, area lights, indoor overhead lighting, and other specialty lighting applications.

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The majority of our LED lights are sold as retrofits for existing traditional lighting, and to a lesser extent for new construction lighting installations. Additionally, historically the majority of our lights have been sold by us directly to our customers, although we also have distributor relationships that serve certain product lines and are becoming an increasing part of our sales channels. Occasionally we provide installation services, although that is not a significant portion of our business. We also assist our customers in receiving utility incentives for LED lighting. Our customers are primarily large retail chains, utilities, department stores, and large commercial and industrial customers. These customers typically install LED lighting across numerous locations over a diverse geographic scope. We expect our customer base and sales channels to continue to grow and develop as LED technology continues to be more widely adopted. As we bring additional products to market, we expect to employ a similar business model with our LED lighting products with a greater portion of our sales driven through distributorship channels.

Our Energy Efficiency Services business revenues are generated through a full range of turn-key services we provide to ESCOs and retailers. We apply our engineering expertise to analyze each facility's energy consumption and operational needs, and develop customized energy efficiency and renewable energy solutions to optimize that facility's return on investment. We provide complete turn-key implementation services for a range of energy efficiency and renewable energy projects, including energy efficient lighting upgrades, energy efficiency mechanical and electrical retrofit and upgrade services, water conservation, weatherization, combined heat and power or cogeneration and renewable project development and implementation. We consider factors such as current facility infrastructure, best available technologies, building environmental conditions, hours of operation, energy costs, available utility rebates, tax incentives, and installation, operation and maintenance costs of various efficiency alternatives. Our extensive knowledge of energy solutions and their results in numerous environments enables us to apply some of the most appropriate, effective and proven technologies available in the marketplace.

## **How We Evaluate our Business Performance and Opportunities**

The major qualitative and quantitative factors we consider in the evaluation of our current and future operating results, include the following:

A significant amount of our revenue involves large product and service orders. Our revenue and profit in any particular period is significantly influenced by the sales commitments for projects that we receive in periods which precede the reporting period and then are completed and recognized in the reporting period. Accordingly, as we plan our business and evaluate our results, particularly in the short-term, we are focused on the revenue we expect to recognize from projects we have in our near-term revenue backlog, which includes project awards and orders we have received but have not yet completed and recognized. Additionally, with regard to our medium and longer term results, we focus on revenue opportunities in our sales pipeline, which includes revenue from projects that we are in discussion with customers about but have not been awarded.

Our net income in any particular period is significantly influenced by the gross margins on the particular projects we complete, and on the mix of products and services which are delivered in that period. Because a large portion of our projects are fixed price projects, we are particularly focused on the cost of sales we incur to deliver them. This cost of sales includes the cost of labor, materials, and other inputs that are directly associated with that particular project. Our projects are priced with gross margin expectations that provide us with our targeted financial returns, and variances from these gross margin expectations are an area we regularly assess. The larger the project or product or service order, the more rigorously it is assessed,



because larger projects influence our profit to a greater degree than smaller projects. Our cost of sales and gross margin on particular projects can affect our future pricing and operational decisions on similar projects, and can also influence our strategic decisions about the products and services we will provide in the future, and the business model we will use to provide them. However, because our projects and orders are generally custom priced, the current market cost of commodity materials is incorporated into the price of our projects and orders, which means that fluctuations in these commodity costs is generally not a major focus of management.

We generally evaluate our Distributed Generation and Solar Energy revenues on a project-by-project basis to determine if we are pricing and delivering our products and services profitably, as well as from an overall perspective to determine the levels of revenue, expense, and profit required to deliver sustained profitable growth. We generally evaluate our Energy Efficiency revenues on a product-by-product basis and a customer-by-customer basis to determine if our products are profitable and

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customer pricing and service delivery is effective, as well as from an overall perspective to determine the levels of revenue, expense, and profit required to deliver sustained profitable growth. Finally, we generally evaluate our Utility Infrastructure revenues on a customer-by-customer basis and a project-by-project basis to determine if our services are being priced and executed profitably, as well as from an overall perspective to determine the levels of revenue, expense, and profit required to deliver sustained profitable growth.

We believe that increasing the amount of Distributed Generation solutions we deliver under a recurring revenue model will increase our margins and increase the predictability of our results over time, although not necessarily in the near-term. We believe that achieving increasingly predictable results, in turn, will increase shareholder value over the long-term. Since our business strategy includes increasing the amount of revenue we generate from recurring revenue contracts, we actively evaluate the progress we are making in this area. In addition, recurring revenue projects generally require us to invest capital at the beginning of the contract term to manufacture and install equipment. These capital expenditures can be significant, and we actively evaluate expectations as to the timing and amount of capital expenditure investments we will make for these recurring revenue projects in the context of our overall revenue and profit expectations, cash and debt position, lender covenants, and other financing constraints. This evaluation includes expectations for capital investments in our revenue backlog as well as our revenue pipeline.

The growth of our business is dependent on the continued expansion and development of our customer base, our utility relationships, and our new products and services. For this reason, we actively evaluate our sales activity and productivity, revenue pipeline, and new business awards for progress in the growth and development of our customer base. We also actively evaluate the new products and services we are developing for new and existing customers to determine their market opportunity, rate of acceptance, and financial potential.

We actively evaluate our costs, including staffing, machinery and equipment, facilities, productivity, and other overhead, and trends in these costs, in conjunction with our revenue expectations and business opportunities to ensure that we have the right infrastructure in place to maximize our long-term revenue and profit opportunities, while balancing the need to deliver near-term profits.

We actively evaluate and plan our working capital needs, and the impact of these needs on our cash and debt position. The primary areas that require significant working capital are inventory and labor, which tends to be high at the beginning of a project, and at the start of a large order, and receivables, which tend to increase at the end of a project, and at the end of a large order.

We actively evaluate and plan for our expected revenue and profit results, including the revenue and profit results from our Distributed Generation, Solar Energy, Utility Infrastructure and Energy Efficiency solutions.

## **Uncertainties, Trends and Risks that can cause Fluctuations in our Operating Results**

Our revenues, expenses, margins, net income, cash flow, cash, working capital, capital expenditures, debt, balance sheet positions, and other operating results have fluctuated significantly from quarter-to-quarter, period-to-period and year-to-year in the past and are expected to continue to fluctuate significantly in the future due to a variety of factors,

many of which are outside of our control. Factors that affect our operating results include the following:

the effects of general economic, business and financial conditions, including the negative impact that continuing weak and uncertain economic and financial market conditions and inconsistent capital and credit markets, or their deterioration, could have on our business operations, our revenues and our ability to operate and grow profitably, including the negative impact these conditions could have on the timing of and amounts of orders from our customers, and the potential these factors have to negatively impact our access to capital to finance our business;

the size, timing and terms of sales and orders, especially large customer orders, as well as the effects of the timing of phases of completion of projects for customers, and customers delaying, deferring or canceling purchase orders or making smaller purchases than expected, such as the anticipated termination of the large solar project contemplated by the July 2015 EPC Contract;

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our ability to execute on our customer orders efficiently and profitably, to generate customer satisfaction, enhanced operating income and future additional business, especially with respect to significant awards such as the utility-scale solar projects, which are our largest projects in terms of revenues but have relatively low margins;

our ability to make strategic acquisitions of key businesses, technologies and other assets and resources, to realize the expected benefits from such acquisitions, to effectively integrate the acquired businesses, assets and personnel in our organization, to grow acquired businesses and to manage the costs related to such acquisitions, including our recent acquisitions of our retail energy services operations, and our mission critical data center energy services operations;

our ability to sell, complete and recognize satisfactory levels of near-term quarterly revenues and net income related to our project-based sales and product and service revenues, which are recognized and billed as they are completed, in order to maintain our current profits and cash flow and to satisfy our financial covenants in our credit facility and to successfully finance the recurring revenue portion of our business model;

our ability to maintain and grow our Utility Infrastructure revenues on a profitable basis, including maintaining and improving our pricing, utilization rates and productivity rates, given the significant levels of vehicles, tools and labor in which we have invested and which are required to serve utilities, and the risk that our utility customers will change work volumes or pricing, or will displace us from providing services;

our ability to maintain our safety performance and safety record at levels that meet or exceed the standards of our utility customers, the inability of which could cause us to be abruptly and immediately released from our work assignments with those utilities, and to lose the opportunity to obtain additional or new work from those utilities;

our ability to obtain adequate supplies of key components and materials of suitable quality for our products on a timely and cost-effective basis, including the impact of potential supply line constraints, substandard parts, changes in environmental requirements, and fluctuations in the cost of raw materials and commodity prices, including without limitation with respect to our LED lighting products and third party manufacturing arrangements we have, and arrangements we have established to source these products and components from vendors in Asia;

our strategy to increase our revenues from long-term recurring revenue projects, recognizing that increasing our revenues from recurring revenue projects will require up-front capital expenditures and will protract our revenue and profit recognition from those projects over a longer period compared to turn-key sales, while at the same time increasing our gross margins over the long-term;

the performance of our products, services and technologies, and the ability of our systems to meet the performance standards they are designed and built to deliver to our customers, including but not limited to our recurring revenue projects for which we retain the on-going risks associated with the performance and

ownership of the systems;

our ability to access significant capital resources on a timely basis in order to fund working capital requirements, fulfill large customer orders, finance capital required for recurring revenue projects, and finance working capital and equipment for our business;

our ability to develop new products, services and technologies with competitive advantages and positive customer value propositions;

permitting and regulatory or customer-caused delays on projects;

our ability to implement our business plans and strategies and the timing of such implementation;

the pace of revenue and profit realization from our new businesses and the development and growth of their markets, including the timing, pricing and market acceptance of our new products and services;

the amount of costs and expenses we incur to support our growth internally and through acquisitions, and our success in controlling and reducing our costs and expenses;

changes in our pricing policies and those of our competitors, including the introduction of lower cost competing technologies and the potential for them to impact our pricing and our profit margins;

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variations in the length of our sales cycle and in the product and service delivery and construction process;

changes in the mix of our products and services having differing margins;

changes in our expenses, including prices for materials such as copper, aluminum and other raw materials, labor costs and other components of our products and services, fuel prices including diesel, natural gas, oil and gasoline, and our ability to hedge or otherwise manage these prices to protect our costs and revenues, minimize the impact of volatile exchange rates and mitigate unforeseen or unanticipated expenses;

changes in our valuation allowance for our net deferred tax asset, and the resulting impact on our current tax expenses, future tax expenses and balance sheet account balances;

the effects of severe weather conditions, such as hurricanes and major wind and ice storms, on the business operations of our customers, and the potential effect of such conditions on our results of operations;

the life cycles of our products and services, and competitive alternatives in the marketplace;

budgeting cycles of utilities and other industrial, commercial and institutional customers, including impacts of the slow economic recovery and inconsistent capital markets conditions on capital projects and other spending items;

the development and maintenance of business relationships with strategic partners such as utilities and large customers;

economic conditions and regulations in the energy industry, especially in the electric utility industry, including the effects of changes in energy prices, electricity pricing and utility tariffs as well as the impact of future reductions in solar tax credits and incentives;

changes in the prices charged by our suppliers;

the effects of governmental regulations and regulatory changes in our markets, including emissions regulations; and

the effects of litigation, warranty claims and other claims and proceedings, including the securities class action.

Because we have little or no control over most of these factors, our operating results are difficult to predict. Any adverse change in any of these factors could negatively affect our business and results of operations.

Our revenues and other operating results are heavily dependent upon the size and timing of customer orders and payments, and the timing of the completion of those projects. The timing of large individual orders, and of project completion, is difficult for us to predict. Because our operating expenses are based on anticipated revenues over the long-term and because a high percentage of these are relatively fixed, a shortfall or delay in recognizing revenues can cause our operating results to vary significantly from year-to-year and can result in significant operating losses or declines in profit margins in any particular year. If our revenues fall below our expectations in any particular period, we may not be able to or it may not be prudent to reduce our expenses rapidly in response to the shortfall, which can result in us suffering significant operating losses or declines in profit margins in that period.

As we develop new lines of business, our revenues and costs will fluctuate because generally new businesses require start-up expenses and it takes time for revenues to develop, which can result in losses in early periods. Another factor that could cause material fluctuations in our annual results is an increase in recurring, as opposed to project-based, sources of revenue we generate for our Distributed Generation projects. To date, the majority of our revenues have consisted of project-based Distributed Generation revenues, project-based Utility Infrastructure revenues, project-based Solar Energy revenues, project-based Energy Efficiency Services revenues and sales of LED lighting fixtures, which are recognized as the sales occur or the projects are completed. Recurring revenue projects, compared to project-based sales, are generally more profitable over time, and growth in this business model can result in delayed recognition of revenue and net income, especially in the short-term, as we implement an increased number of these recurring revenue projects.

Due to all of these factors and the other risks discussed in Item 1A. Risk Factors of this report, quarter-to-quarter, period-to-period or year-to-year comparisons of our results of operations should not be relied on as an indication of our future performance. Quarterly, period or annual comparisons of our operating results are not necessarily meaningful or indicative of future performance.

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### **Recent Developments**

On February 24, 2016, we entered into the Merger Agreement with Southern Company and a new wholly-owned subsidiary of Southern Company, which we refer to as the Merger Sub, providing for the merger of the Merger Sub with and into PowerSecure, with PowerSecure surviving as a wholly-owned subsidiary of Southern Company. At the effective time of the merger, subject to receipt of required shareholder and regulatory approvals, and meeting specified customary closing conditions, each share of our common stock will be converted automatically into the right to receive into the right to receive \$18.75 in cash, without interest, less any applicable withholding taxes. In the Merger Agreement, we agreed to covenants affecting the conduct of our business between the date of the Merger Agreement and the effective date of the Merger.

In February 2016, we entered into a Management Services Agreement, or MSA. Bahamas Power and Light Company, or BPL, a wholly owned subsidiary of Bahamas Electricity Corporation, the government owned electric utility for The Bahamas (excluding Grand Bahama) under which PowerSecure will provide its management services to BPL for the next five years. The MSA includes a business plan which outlines cost-reduction and reliability targets along with renewable energy and customer service initiatives for New Providence and the Family Islands. Under the terms of the MSA, PowerSecure will receive a baseline annual management fee of \$2 million, plus additional performance-based compensation in the event BPL achieves pre-defined key performance indicators related to cost-reductions, reliability improvements and customer-service enhancements.

In December 2015, we initiated a business realignment program, taking actions to realign our operations to gain cost and performance efficiencies. These actions, which primarily involved our Utility Infrastructure and Distributed Generation segments, consisted of the reduction of our overhead structure, elimination of certain products and long-term asset writedowns. As a result of these 2015 business realignment initiatives, we incurred pre-tax restructuring charges totaling \$1.4 million during the year ended December 31, 2015. These charges consisted of severance and related costs from the elimination of employee positions and long-lived asset impairment charges. The majority of the expenses associated with the 2015 business realignment charges during the year ended December 31, 2015 are included in restructuring charges as a component of operating expenses. The 2015 business realignment plan and actions are substantially complete at December 31, 2015, and no additional restructuring charges are expected to be incurred in 2016 associated with the 2015 plan.

In December 2015, we acquired ESCO Energy Services Company, Inc., a private company based in Lennox, Massachusetts that provides lighting retrofit solutions which deliver energy savings for large energy services companies and commercial and industrial, institutional, utility and municipal customers across the United States. The purchase price paid for the acquired business and assets was \$0.9 million cash, inclusive of a \$0.2 million working capital adjustment, and \$0.8 million of note financing payable to the seller, plus a potential additional contingent cash payment in the amount of up to \$1.8 million in the event contracted sales achieved by the acquired business exceeds certain baseline targets. The acquired business provides full turnkey energy efficiency services including energy audits, materials procurement, project management, implementation and verification. We anticipate that the acquisition will provide us with an expanded geographical presence in the Northeast and additional market sectors outside of our existing traditional energy services customer base.

On November 3, 2015, we entered into an amendment to the amended and restated credit agreement that provides for our credit facility, which consists of both a revolving loan and certain term debt. The amendment increased the size of the revolving loan to \$40 million from \$20 million, the amount of the availability of which continues to be subject to our compliance with our financial covenants as amended, and also extended the maturity date of the entire credit facility to June 30, 2020 from November 12, 2016, including the maturity of the revolving loan and the \$2.6 million original principal amount term loan. In addition, the amendment to the credit agreement added an accordion provision



permitting us to request an increase in the revolving loan by up to an additional \$20 million, subject to lender participation, and amended one of our financial covenants, reducing the maximum debt to capitalization ratio at the end of any fiscal quarter to 0.25 from 0.30.

### **Financial Results Highlights**

Our consolidated revenues in 2015 were \$443.7 million, an increase of \$187.0 million, or 72.9%, over our consolidated revenues during 2014. The drivers of this year-over-year revenue increase were revenue increases in each of our reportable segments, as follows: a \$69.7 million, or 90.1%, increase in our Distributed Generation

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segment revenues; a \$71.3 million, or 315.4%, increase in our Solar Energy segment revenues; a \$38.9 million, or 37.6%, increase in our Utility Infrastructure segment revenues; and a \$7.5 million, or 13.8%, increase in our Energy Efficiency segment revenues. The increase in our Distributed Generation segment revenues during 2015 was a result of an increase in traditional turn-key Distributed Generation project sales and an increase in sales from data center customers supported by the acquisition of our mission critical data center energy services operations in 2014. The increase in our Solar Energy segment revenues reflects an increase in the number and size of solar projects we are executing year-over-year, as well as an overall increase in customer demand for solar solutions, driven, in part, by the scheduled expiration or reduction of the federal alternative energy investment tax credits at the end of 2016, which has now been extended. The increase in our Utility Infrastructure revenues was driven by a \$36.5 million increase in UtilityServices revenues. The increase in our UtilityServices revenue was primarily due to our focus on new business development activity as we improved operational performance in our UtilityServices operations. The increase in our Energy Efficiency segment revenues was due to a \$9.7 million increase in revenues from our Energy Efficiency Services projects, partially offset by a \$2.2 million decrease in LED lighting product sales.

Our 2015 gross margin as a percentage of revenue decreased to 22.8%, compared to 25.2% in 2014, on a consolidated basis. This year-over-year gross profit margin decrease was driven by an increase in revenues from our Solar Energy segment, which include utility-scale solar projects which carry lower gross margins. To a lesser extent, our gross margins were affected by a mix of lower margin projects in our Distributed Generation reportable segment, partially offset by a gross margin increase in our Utility Infrastructure and Energy Efficiency reportable segments. Distributed Generation segment gross profit margins were 34.3% in 2015 compared to 35.0% in 2014. Solar Energy segment gross profit margins were 7.9% in 2015 compared to 18.8% in 2014. Utility Infrastructure segment gross profit margins were 14.8% in 2015 compared to 14.5% in 2014. Energy Efficiency segment gross profit margins were 36.2% in 2015 compared to 33.7% in 2014. Our Distributed Generation segment gross profit margin decreased due to differences in the mix of projects period-to-period. Our Solar Energy segment gross profit margin decreased due to the effects of the lower-margin utility-scale projects in 2015 compared to 2014. The improvement in our Utility Infrastructure segment gross profit margin is due to improved operational efficiencies within our UtilityServices operations. The Energy Efficiency segment gross profit margin improvement was driven by improvements in our LED product gross margins which was slightly offset by lower gross margins from our Energy Efficiency Services projects. As is always the case, variability in our quarterly and year-to-date gross profit margins is also caused by regular on-going differences in the mix of specific projects completed in each period.

Our operating expenses during 2015 increased by \$15.5 million, or 20.8%, compared to our operating expenses during 2014. The year-over-year increase in operating expenses was driven by increases in general and administrative expense due to incremental operating expenses associated with the acquisition of our retail energy services operations in September 2014, and our mission critical data center energy services operations in October 2014. The remaining year-over-year increase in our operating expenses was driven by increases in personnel, employee benefits and insurance, stock compensation expense, and professional fees to support our growing business platforms, an increase in selling expenses due to additional sales executives, and an increase in depreciation and amortization from our investments in utility infrastructure equipment, company-owned distributed generation systems, and acquisition-related intangibles.

Our consolidated operating income for 2015 was \$11.0 million, which included \$1.4 million of restructuring charges, compared to an operating loss of (\$10.1) million for 2014, which included \$0.7 million of restructuring charges. The following table summarizes our operating income (loss) by reportable segment for the periods indicated (dollars in thousands):

|                                       | Year Ended       |                    | Period-over-Period |               |
|---------------------------------------|------------------|--------------------|--------------------|---------------|
|                                       | December 31,     |                    | Difference         |               |
|                                       | 2015             | 2014               | \$                 | %             |
| Segment operating income (loss):      |                  |                    |                    |               |
| Distributed Generation                | \$ 22,304        | \$ 6,810           | \$ 15,494          | 227.5%        |
| Solar Energy                          | 2,812            | 1,448              | 1,364              | 94.2%         |
| Utility Infrastructure                | 3,356            | (1,141)            | 4,497              | 394.1%        |
| Energy Efficiency                     | 5,985            | 3,671              | 2,314              | 63.0%         |
| Corporate and other unallocated costs | (23,425)         | (20,857)           | (2,568)            | (12.3)%       |
| <b>Total</b>                          | <b>\$ 11,032</b> | <b>\$ (10,069)</b> | <b>\$ 21,101</b>   | <b>209.6%</b> |

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Our consolidated net income for 2015 was \$5.8 million, or \$0.26 per diluted share, which included \$1.4 million of restructuring charges, compared to a net loss of (\$7.0) million, or (\$0.31) per diluted share, for 2014, which included \$0.7 million of restructuring charges.

As discussed above under **Uncertainties, Trends and Risks that can cause Fluctuations in our Operating Results**, our financial results will fluctuate from quarter to quarter and year to year. Thus, there is no assurance that our past results, including the results of our year ended December 31, 2015, will be indicative of our future results.

**Backlog**

Our revenue backlog stands at \$360 million, as of February 11, 2016. This revenue backlog represents revenue expected to be recognized after December 31, 2015, for periods including the first quarter of 2016 onward. This includes revenue related to the new business awards described above under **Recent Developments**. Our \$360 million revenue backlog and the estimated timing of revenue recognition are outlined below, including project-based revenues expected to be recognized as projects are completed, and recurring revenues expected to be recognized over the life of the underlying contracts. Also outlined below, our \$360 million revenue backlog is broken down between non-solar revenue backlog and solar revenue backlog.

**Revenue Backlog expected to be recognized after****December 31, 2015**

| Description           |           | Anticipated Revenue | Estimated Primary Recognition Period |
|-----------------------|-----------|---------------------|--------------------------------------|
| Project-based Revenue | Near term | \$ 236 million      | 1Q16 through 3Q16                    |
| Project-based Revenue | Long term | \$ 35 million       | 4Q16 through 2017                    |
| Recurring Revenue     |           | \$ 89 million       | 1Q16 through 2020                    |

**Revenue Backlog expected to be recognized after December 31, 2015**      **\$ 360 million**

| Description   | Anticipated Non-Solar Revenue | Anticipated Solar Revenue |
|---|-------------------------------|---------------------------|
| Revenue Backlog expected to be recognized after December 31, 2015 by Category | \$ 294 million                | \$ 66 million             |
| Revenue Backlog as reported March 4, 2015 by category                         | \$ 232 million                | \$ 136 million            |

**Change in Revenue Backlog by category**      **\$ 62 million**      **(\$ 70 million)**

**% Change in Revenue Backlog by category**      **26.7%**      **-51.5%**

Note: Anticipated revenue and estimated primary recognition periods are subject to risks and uncertainties as indicated in **Cautionary Note Regarding Forward-Looking Statements** above. Consistent with past practice, these

*amounts are not intended to constitute our total revenue over the indicated time periods, as we have additional, regular on-going revenues. Examples of additional, regular recurring revenues include revenues from engineering fees, and service revenue, among others. Numbers may not add due to rounding.*

Orders in our backlog are subject to delay, deferral, acceleration, resizing, or cancellation from time to time by our customers, subject to contractual rights, and estimates are utilized in the determination of the backlog amounts. For example, the anticipated revenue from one large solar project is subject to a potential modification resulting in a larger reduction in size than anticipated or potential termination. Given the irregular sales cycle of customer orders, and especially of large orders, our revenue backlog at any given time is not necessarily an accurate indication of our future revenues.

The revenue backlog from the \$85 million July 2015 EPC Contract has been fully excluded from the revenue backlog totals above based upon the anticipated termination of this contract.

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### **Reportable Segments**

Our reportable segments are currently organized around the following products and services that we offer as part of our core business strategy:

Distributed Generation solutions;

Solar Energy solutions;

Utility Infrastructure solutions; and

Energy Efficiency solutions.

Prior to the year ended December 31, 2015, the Distributed Generation and Solar Energy operating segments, described in greater detail below, had been reported on an aggregated basis under our Distributed Generation segment. We subsequently determined that we misapplied the provisions of ASC 280, Segment Reporting, in regards to our identification and aggregation of operating and reportable segments. During the year ended December 31, 2015, we correctly identified and reported segment activity pursuant to the provisions of ASC 280, and we have restated segment information that follows for the years ended December 31, 2014 and 2013 to correct our error and to conform to our current presentation.

### ***Distributed Generation***

Our Distributed Generation segment manufactures, installs and operates electric generation equipment on site at facilities where the power is used, including commercial, institutional and industrial operations. Our systems provide a highly dependable backup power supply during power outages, and provide a more efficient and environmentally friendly source of power during high cost periods of peak power demand. These two sources of value benefit both utilities and their large customers. In addition, our Distributed Generation solutions include full turn-key electrical infrastructure design, implementation and commissioning service to data center owners.

We have developed, and since 2015 have been offering, sophisticated energy storage solutions, which support a microgrid and enable a customer to integrate solar and other generation sources with our control solutions. Our energy storage solutions, including battery storage solutions, enable the enhanced utilization of renewable energy sources, designed to improve the reliability and quality of alternative energy sources such as solar or wind power. Our typical energy storage solution is intended to help leverage a customer's renewable energy investment in a number of ways, such as by providing output firming, which stabilizes power against variances in meteorological conditions. Another advantage of our solutions is power smoothing, which improves power quality and eliminates harmonics, rapid voltage swings and frequency deviations.

### ***Solar Energy***

Our Solar Energy operating segment is operated primarily by our PowerSecure Solar subsidiary. Our Solar Energy systems use photovoltaic solar panels (which we do not manufacture) to provide utilities and their customers with environmentally friendly power to augment their core power requirements. Our PowerSecure Solar team provides us

with the ability to deliver Solar Energy systems integrated with our Distributed Generation solutions platform.

***Utility Infrastructure***

Our Utility Infrastructure segment is focused on helping electric utilities design, build, upgrade and maintain infrastructure that enhances the efficiency of their grid systems. Our largest source of revenue within our Utility Infrastructure area is our UtilityServices products and services. We have significantly expanded our UtilityServices scope of utility relationships, customers and geography over the last few years. Our UtilityServices team provides utilities with transmission and distribution construction and maintenance, including substation construction and maintenance, and storm restoration. In addition to providing these services directly to utilities, we also perform this work on behalf of utilities for their large industrial and institutional customers, and directly to large oil and gas companies.

Through our Encari, UtilityEngineering and PowerServices teams, we serve the engineering and consulting needs of our utility clients, broadening our offerings to our utility partners. The scope of services that we offer through UtilityEngineering includes technical engineering services for our utility partners and their customers,

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including design and engineering relating to virtually every element of their transmission and distribution systems, substations and renewable energy facilities. Through PowerServices, we provide management consulting services to utilities and commercial and industrial customers, including planning and quality improvement, technical studies involving reliability analysis and rate analysis, acquisition studies, accident investigations and power supply contracts and negotiations. Our Encari business, which we acquired in October 2013, provides cybersecurity consulting and compliance services to the utility industry.

**Energy Efficiency**

We deliver Energy Efficiency products and services to assist our customers in the achievement of their energy efficiency goals. We have two primary product and service offerings in our Energy Efficiency segment: LED lighting fixtures and lamps, and energy efficiency upgrades for our ESCO customers. Our LED lighting products are primarily focused on the utility, commercial and industrial, and retail markets, while our Energy Efficiency Services solutions are focused on serving the ESCO and retail customer base. In the future, we plan to bring our LED lighting products to our Energy Efficiency Services customer base. In both of our Energy Efficiency segment product and service lines we deliver highly engineered product solutions and upgrades with strong value propositions that are designed to reduce energy costs, improve operations and benefit the environment.

**Results of Operations**

The following discussion regarding segment revenues, gross profit, costs and expenses, and other income and expenses for 2015 compared to 2014 and for 2014 compared to 2013 are entirely attributable to our Distributed Generation, Solar Energy, Utility Infrastructure and Energy Efficiency reportable segments, unless otherwise indicated. Amounts shown as Corporate and other in the tables that follow represent costs and other income and expense amounts that are not allocated to our segments for financial reporting purposes. In addition, certain revenues and cost of sales are included in multiple segments for purposes of evaluation of the stand-alone results of the reportable segments. These revenues and cost of sales are eliminated in Intersegment Eliminations, where applicable, in the tables below. Finally, segment revenues, gross profit, and costs and expenses for 2014 and 2013 have been reclassified to conform to our current presentation of reportable segment activity in the tables below.

**2015 Compared to 2014**

Our consolidated revenues are generated entirely by sales and services provided by our reportable segments. Intersegment revenues, if any, are eliminated from total segment revenues as reflected in the tables below. The following table summarizes our revenues, including intersegment revenues, by these segments for the periods indicated (dollars in thousands):

|                           | Year Ended<br>December 31, |           | Period-over-Period<br>Difference |        |
|---------------------------|----------------------------|-----------|----------------------------------|--------|
|                           | 2015                       | 2014      | \$                               | %      |
| <b>Segment Revenues:</b>  |                            |           |                                  |        |
| Distributed Generation    | \$ 147,139                 | \$ 77,408 | \$ 69,731                        | 90.1%  |
| Solar Energy              | 93,928                     | 22,609    | 71,319                           | 315.4% |
| Utility Infrastructure    | 142,058                    | 103,204   | 38,854                           | 37.6%  |
| Energy Efficiency         | 61,501                     | 54,038    | 7,463                            | 13.8%  |
| Intersegment Eliminations | (925)                      | (602)     | (323)                            | 53.7%  |



|       |            |            |            |       |
|-------|------------|------------|------------|-------|
| Total | \$ 443,701 | \$ 256,657 | \$ 187,044 | 72.9% |
|-------|------------|------------|------------|-------|

Our consolidated revenues in 2015 of \$443.7 million increased \$187.0 million, or 72.9%, compared to 2014, due to an increase in revenue in each of our reportable segments. The increase in our revenues in 2015 over 2014 consisted of a \$69.7 million, or 90.1%, increase in revenues from our Distributed Generation segment, a \$71.3 million, or 315.4% increase in revenues from our Solar Energy segment, a \$38.9 million, or 37.6%, increase in revenues from our Utility Infrastructure segment and a \$7.5 million, or 13.8%, increase in revenues from our Energy Efficiency segment.

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The year-over-year increase in our Distributed Generation segment revenues was driven primarily by a \$30.2 million increase in traditional turn-key Distributed Generation project sales and \$39.0 million of revenues from our mission critical data center energy services operations acquired in October 2014. The increase in our Solar Energy segment revenues reflects a year-over-year increase in the number and size of solar projects, including the two utility scale solar installation projects we were awarded in July 2014, as well as an overall increase in customer demand for solar solutions, driven, in part, by the scheduled expiration or reduction of federal alternative energy investment tax credits at the end of 2016, which has now been extended. The year-over-year increase in our Utility Infrastructure segment revenues was due a \$36.5 million increase in UtilityServices revenue and a \$1.2 million increase in revenues from engineering, consulting and management services we provide to utilities. The increase in our UtilityServices revenue was primarily due to our efforts to focus on new business development activity. The increase in our Energy Efficiency segment revenues was due to a \$9.7 million increase in revenues from our Energy Efficiency Services projects, partially offset by a \$2.2 million reduction in LED lighting product sales. In the near-term, we expect our revenues to continue to show year-over-year growth, although our overall revenues are always subject to project completion timing and other factors.

Our revenues are significantly affected by the number, size and timing of our Distributed Generation, Solar Energy, Utility Infrastructure and Energy Efficiency projects as well as the percentage of completion of in-process projects, and the percentage of customer-owned as opposed to PowerSecure-owned distributed generation recurring revenue projects. Our sales have fluctuated significantly in the past and are expected to continue to fluctuate significantly in the future.

*Gross Profit and Gross Profit Margin*

Our gross profit represents our revenues less our cost of sales. Our gross profit margin represents our gross profit divided by our revenues. The following table summarizes our cost of sales by segment, along with our segment gross profit and gross profit margins for the periods indicated (dollars in thousands):

|   | Year Ended        |                      | Period-over-Period |              |
|---|-------------------|----------------------|--------------------|--------------|
|   | 2015              | December 31,<br>2014 | Difference         |              |
|   |                   |                      | \$                 | %            |
| <b>Segment Cost of Sales (excluding depreciation and amortization):</b> |                   |                      |                    |              |
| Distributed Generation  | \$ 96,606         | \$ 50,298            | \$ 46,308          | 92.1%        |
| Solar Energy  | 86,546            | 18,350               | 68,196             | 371.6%       |
| Utility Infrastructure  | 121,062           | 88,199               | 32,863             | 37.3%        |
| Energy Efficiency   | 39,240            | 35,843               | 3,397              | 9.5%         |
| Intersegment Eliminations   | (925)             | (602)                | (323)              | 53.7%        |
| <b>Total</b>  | <b>\$ 342,529</b> | <b>\$ 192,088</b>    | <b>\$ 150,441</b>  | <b>78.3%</b> |
| <b>Segment Gross Profit:</b>  |                   |                      |                    |              |
| Distributed Generation  | \$ 50,533         | \$ 27,110            | \$ 23,423          | 86.4%        |
| Solar Energy  | 7,382             | 4,259                | 3,123              | 73.3%        |
| Utility Infrastructure  | 20,996            | 15,005               | 5,991              | 39.9%        |
| Energy Efficiency   | 22,261            | 18,195               | 4,066              | 22.3%        |

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|                               |            |           |           |       |
|-------------------------------|------------|-----------|-----------|-------|
| Total                         | \$ 101,172 | \$ 64,569 | \$ 36,603 | 56.7% |
| Segment Gross Profit Margins: |            |           |           |       |
| Distributed Generation        | 34.3%      | 35.0%     |           |       |
| Solar Energy                  | 7.9%       | 18.8%     |           |       |
| Utility Infrastructure        | 14.8%      | 14.5%     |           |       |
| Energy Efficiency             | 36.2%      | 33.7%     |           |       |
| Total                         | 22.8%      | 25.2%     |           |       |

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Cost of sales includes materials, vehicles, personnel and related overhead costs incurred to manufacture products and provide services, but excludes depreciation and amortization. Cost of sales also includes inventory write-downs occurring in the normal course of business, as well as those occurring in connection with periodic restructuring and realignment actions. Intersegment cost of sales from intersegment revenues are eliminated from total cost of sales. The 78.3% increase in our consolidated cost of sales and services for 2015 compared to 2014 was driven by the increase in costs associated with the 72.9% increase in revenues and other factors discussed below leading to the decrease in our consolidated gross profit margin.

Our consolidated gross profit increased \$36.6 million, or 56.7%, in 2015 compared to 2014. As a percentage of revenue, our consolidated gross margin in 2015 was 22.8%, a decrease of 2.4 percentage points compared to 2014. This year-over-year gross profit margin decrease was driven by increases in revenues from our Solar Energy segment, which include utility-scale solar projects which carry lower gross margins. To a lesser extent, our gross margins were affected by a mix of lower margin projects in our Distributed Generation reportable segment, partially offset by increases in our Utility Infrastructure and Energy Efficiency reportable segments.

Distributed Generation segment gross profit margins were 34.3% in 2015 compared to 35.0% in 2014. Solar Energy segment gross profit margins were 7.9% in 2015 compared to 18.8% in 2014. Utility Infrastructure segment gross profit margins were 14.8% in 2015 compared to 14.5% in 2014. Energy Efficiency segment gross profit margins were 36.2% in 2015 compared to 33.7% in 2014. Our Distributed Generation segment gross profit margin decreased slightly due to differences in the mix of projects period-to-period. Our Solar Energy segment gross profit margin decreased due to the significant increase in year-over-year revenues from the lower-margin utility-scale solar projects in 2015 compared to 2014. The improvement in our Utility Infrastructure segment gross profit margin is due to improved operational efficiencies within our Utility Services operations. In particular, our 2014 Utility Services gross profit margins were negatively impacted by the effects of unfavorable service arrangements and work assignments from a large utility customer. In June 2014, we successfully modified the service arrangement with the utility customer to improve the terms of our ongoing service, including positive adjustments to future pricing, work assignments and expected improvements in the ongoing scope of work. Our Energy Efficiency segment gross profit margin improvement was driven primarily by improvements in our LED product and service gross margins, slightly offset by lower gross margin in our Energy Efficiency Services projects.

An important driver in the period-over-period change in our consolidated gross profit margin is the relative gross profit margins we generally earn in each of our Distributed Generation, Solar Energy, Utility Infrastructure and Energy Efficiency reportable segments. Our Distributed Generation segment products and services generally yield gross profit margins in the 25-45% range, our Solar Energy segment products and services generally yield gross profit margins that are in the 5-20% range, our Utility Infrastructure segment products and services generally yield gross profit margins in the 5-25% range, and our Energy Efficiency segment products generally yield gross profit margins in the 15-40% range (with our ESCO revenues having gross profit margins that are generally at the mid-point of this range). The gross profit margin we realize in each of our reportable segments largely correlates to the amount of value-added products and services we deliver, with highly engineered, turn-key projects realizing higher gross profit margins due to the benefits they deliver our customers and the value we deliver because we are vertically integrated. Because of these gross profit margin differences, changes in the mix of our segment revenues, and individual product lines within those segments, affect our consolidated gross profit margin results.

Our gross profit and gross profit margin have been, and we expect will continue to be, affected by many factors, including the following:

the absolute level of revenue achieved in any particular period, given that portions of our cost of sales are relatively fixed over the near-term, the most significant of which is personnel and equipment costs;

the impact of our utility-scale solar projects in our Solar Energy segment that we expect will deliver significant revenues during the remainder of 2015 and 2016, have significantly lower gross margins than the gross margins at our other reporting segments;

our ability to continue to improve and realize the financial benefits of operational efficiencies in all of our reporting segments, in particular the UtilityServices area of our Utility Infrastructure segment, including increasing our revenue and improving the productivity of our personnel and equipment as well as managing our labor and asset costs during periods when work assignments, and therefore revenue, is lower or when our crews are in-between work assignments;

the mix of higher and lower margin projects, products and services, and the impact of new products and technologies on our pricing and volumes;

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the mix of revenue among each of our Distributed Generation, Solar Energy, Utility Infrastructure and Energy Efficiency segments, and products and services within these segments, which have different gross profit margins, and certain types of projects within each segment, such as lower margin solar projects in our Solar Energy segment;

our ability to execute on our customer orders efficiently and with operational excellence, to generate customer satisfaction, profitability and future additional business, especially with respect to significant awards such as the utility-scale solar projects;

our ability to benefit from economies of scale, including the ability to re-source from low-cost manufacturers;

our level of investments in our businesses, particularly for anticipated or new business awards;

improvements in technology and manufacturing methods and processes;

the impact of competition on our volumes or pricing;

our ability to manage our materials and labor costs, including any future inflationary pressures;

the costs to maintain and operate Distributed Generation systems we own in conjunction with recurring revenue contracts, including the price of fuel, run hours, weather, and the amount of fuel utilized in their operation, as well as their operating performance;

the geographic density of our projects;

the selling price of products and services sold to customers, and the revenues from recurring revenue projects;

the rate of growth of our new businesses, which tend to incur costs in excess of revenues in their earlier phases and then become profitable and more efficient over time if they are successful;

the impact of acquisitions of businesses, assets and technologies, including differing margins of new products and services acquired and our ability to strategically benefit from cost efficiencies these acquisitions provide and to manage the costs of our related growth from acquisitions;

the ability to realize gross profit margin increases from our operations that have lower gross profit margin profiles, such as our Solar Energy segment;

costs and expenses of business shutdowns, when they occur; and

other factors described under **Uncertainties, Trends and Risks** that can cause **Fluctuations in our Operating Results** .

Some of these factors are not within our control, and we cannot provide any assurance that we can continue to improve upon those factors that are within our control, especially given the current economic climate. Moreover, our gross revenues are likely to fluctuate from quarter to quarter and from year to year, as discussed in **Uncertainties, Trends and Risks** that can cause **Fluctuations in our Operating Results** . Accordingly, there is no assurance that our future gross profit and gross profit margins will improve or even remain at historic levels in the future, and will likely decrease if our revenues decrease.

### *Operating Expenses*

Our operating expenses include general and administrative expense, selling, marketing and service expense, depreciation and amortization and, from time to time, restructuring charges. The following table sets forth our consolidated operating expenses for the periods indicated (dollars in thousands):

|   | <b>Year Ended<br/>December 31,</b> |                  | <b>Period-over-Period<br/>Difference</b> |              |
|---|------------------------------------|------------------|--|--------------|
|   | <b>2015</b>                        | <b>2014</b>      | <b>\$</b>                                | <b>%</b>     |
| <b>Consolidated Operating Expenses:</b> |                                    |                  |  |              |
| General and administrative              | \$ 66,801                          | \$ 56,419        | \$ 10,382                                | 18.4%        |
| Selling, marketing and service          | 11,523                             | 8,890            | 2,633                                    | 29.6%        |
| Depreciation and amortization           | 10,525                             | 8,902            | 1,623                                    | 18.2%        |
| Restructuring charges                   | 1,291                              | 427              | 864                                      | 202.3%       |
| <b>Total</b>                            | <b>\$ 90,140</b>                   | <b>\$ 74,638</b> | <b>\$ 15,502</b>                         | <b>20.8%</b> |

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The following table sets forth our operating expenses by reportable segment for the periods indicated (dollars in thousands):

|   | Year Ended<br>December 31, |           | Period-over-Period<br>Difference |         |
|---|----------------------------|-----------|----------------------------------|---------|
|   | 2015                       | 2014      | \$                               | %       |
| <b>Distributed Generation:</b>                  |                            |           |                                  |         |
| General and administrative                      | \$ 18,500                  | \$ 13,147 | \$ 5,353                         | 40.7%   |
| Selling, marketing and service                  | 4,907                      | 3,818     | 1,089                            | 28.5%   |
| Depreciation and amortization                   | 4,380                      | 3,335     | 1,045                            | 31.3%   |
| Restructuring charges                           | 442                        |           | 442                              | n/m     |
| Total Distributed Generation operating expenses | \$ 28,229                  | \$ 20,300 | \$ 7,929                         | 39.1%   |
| <b>Solar Energy:</b>                            |                            |           |                                  |         |
| General and administrative                      | \$ 3,768                   | \$ 2,287  | \$ 1,481                         | 64.8%   |
| Selling, marketing and service                  | 645                        | 422       | 223                              | 52.8%   |
| Depreciation and amortization                   | 157                        | 102       | 55                               | 53.9%   |
| Restructuring charges                           |                            |           |                                  | n/m     |
| Total Solar Energy operating expenses           | \$ 4,570                   | \$ 2,811  | \$ 1,759                         | 62.6%   |
| <b>Utility Infrastructure:</b>                  |                            |           |                                  |         |
| General and administrative                      | \$ 12,035                  | \$ 11,255 | \$ 780                           | 6.9%    |
| Selling, marketing and service                  | 1,621                      | 1,445     | 176                              | 12.2%   |
| Depreciation and amortization                   | 3,266                      | 3,446     | (180)                            | (5.2)%  |
| Restructuring charges                           | 718                        |           | 718                              | n/m     |
| Total Utility Infrastructure operating expenses | \$ 17,640                  | \$ 16,146 | \$ 1,494                         | 9.3%    |
| <b>Energy Efficiency:</b>                       |                            |           |                                  |         |
| General and administrative                      | \$ 12,006                  | \$ 10,543 | \$ 1,463                         | 13.9%   |
| Selling, marketing and service                  | 2,690                      | 2,197     | 493                              | 22.4%   |
| Depreciation and amortization                   | 1,545                      | 1,357     | 188                              | 13.9%   |
| Restructuring charges                           | 35                         | 427       | (392)                            | (91.8)% |
| Total Energy Efficiency operating expenses      | \$ 16,276                  | \$ 14,524 | \$ 1,752                         | 12.1%   |
| <b>Corporate and other:</b>                     |                            |           |                                  |         |
| General and administrative                      | \$ 20,492                  | \$ 19,187 | \$ 1,305                         | 6.8%    |
| Selling, marketing and service                  | 1,660                      | 1,008     | 652                              | 64.7%   |
| Depreciation and amortization                   | 1,177                      | 662       | 515                              | 77.8%   |
| Restructuring charges                           | 96                         |           | 96                               | n/m     |
| Total corporate and other unallocated costs     | \$ 23,425                  | \$ 20,857 | \$ 2,568                         | 12.3%   |



|                                       |           |           |           |       |
|---------------------------------------|-----------|-----------|-----------|-------|
| Total consolidated operating expenses | \$ 90,140 | \$ 74,638 | \$ 15,502 | 20.8% |
|---------------------------------------|-----------|-----------|-----------|-------|

During 2015, we incurred an aggregate of \$3.6 million of incremental operating expenses from our retail energy services operations and our mission critical data center energy services operations, which we acquired during the third and fourth quarter of 2014, respectively. The remaining year-over-year increase in our operating expenses was driven by increases in general and administrative expense due to increases in personnel, employee benefits and insurance, stock compensation expense, and professional fees to support our growing business platforms and anticipated growth, an increase in selling expenses due to additional sales executives, and an increase in depreciation and amortization from our investments in company-owned distributed generation systems, and capitalized software.

Our operating expenses as a percentage of our revenues decreased by 8.8 percentage points in 2015 compared to 2014. This decrease reflects operating efficiencies we experienced in 2015 driven by increased revenue levels during that period.

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*General and Administrative Expenses.* General and administrative expenses include personnel wages, benefits, stock compensation, and bonuses and related overhead costs for the support and administrative functions, together with unallocated corporate and other administrative costs. The overall \$10.4 million, or 18.4%, increase in our consolidated general and administrative expenses in 2015, as compared to 2014, was due primarily to an increase in personnel, stock compensation, insurance, professional fees and consulting, rent and other expenses to support our investments in new business opportunities. The following table provides further details of our general and administrative expenses by expense category for the periods indicated (dollars in thousands):

|   | Year Ended<br>December 31, |                  | Period-over-Period<br>Difference |              |
|---|----------------------------|------------------|----------------------------------|--------------|
|   | 2015                       | 2014             | \$                               | %            |
| <b>Consolidated General and Administrative Expense:</b> |                            |                  |                                  |              |
| Personnel costs   | \$ 36,375                  | \$ 32,150        | \$ 4,225                         | 13.1%        |
| Vehicle lease and rental                                | 2,675                      | 3,085            | (410)                            | (13.3)%      |
| Insurance   | 3,314                      | 2,770            | 544                              | 19.6%        |
| Rent-office and equipment                               | 1,839                      | 1,685            | 154                              | 9.1%         |
| Professional fees and consulting                        | 2,246                      | 2,158            | 88                               | 4.1%         |
| Travel  | 2,465                      | 2,408            | 57                               | 2.4%         |
| Telephone   | 965                        | 908              | 57                               | 6.3%         |
| Meals and entertainment                                 | 1,219                      | 874              | 345                              | 39.5%        |
| Utilities   | 378                        | 343              | 35                               | 10.2%        |
| Other   | 5,186                      | 3,167            | 2,019                            | 63.8%        |
| Corporate costs   | 10,139                     | 6,871            | 3,268                            | 47.6%        |
| <b>Total</b>  | <b>\$ 66,801</b>           | <b>\$ 56,419</b> | <b>\$ 10,382</b>                 | <b>18.4%</b> |

A portion of the increase in each of the expense categories above during 2015 compared to 2014 was due to incremental general and administrative expenses during 2015 incurred for our retail energy services operations and our mission critical data center energy services operations, that we acquired in September 2014 and October 2014, respectively.

The following table provides detail of our general and administrative expenses by segment along with unallocated corporate and other administrative costs for the periods indicated (dollars in thousands):

|  | Year Ended<br>December 31, |           | Period-over-Period<br>Difference |       |
|--|----------------------------|-----------|----------------------------------|-------|
|  | 2015                       | 2014      | \$                               | %     |
| <b>Segment General and Administrative Expense:</b> |                            |           |                                  |       |
| Distributed Generation                             | \$ 18,500                  | \$ 13,147 | \$ 5,353                         | 40.7% |
| Solar Energy                                       | 3,768                      | 2,287     | 1,481                            | 64.8% |
| Utility Infrastructure                             | 12,035                     | 11,255    | 780                              | 6.9%  |
| Energy Efficiency                                  | 12,006                     | 10,543    | 1,463                            | 13.9% |
| Corporate and other unallocated costs              | 20,492                     | 19,187    | 1,305                            | 6.8%  |

|       |           |           |           |       |
|-------|-----------|-----------|-----------|-------|
| Total | \$ 66,801 | \$ 56,419 | \$ 10,382 | 18.4% |
|-------|-----------|-----------|-----------|-------|

The 40.7% increase in our 2015 Distributed Generation segment general and administrative expense compared to 2014, was due to \$2.3 million of additional costs incurred for our mission critical data center energy services operations that we acquired in October 2014, along with increases in personnel costs to support our Distributed Generation segment revenue growth. The 64.8% increase in our 2015 Solar Energy segment general and administrative expense compared to 2014 was due to increases in personnel and related costs that were necessary to support the growth of the Solar Energy operations and fulfilment of the utility-scale solar projects that we were awarded in June 2014. The 6.9% increase in our 2015 Utility Infrastructure segment general and administrative

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expense compared to 2014 was due to increases in personnel and related costs that were necessary to support the growth of our Utility Services operations. The 13.9% increase in our 2015 Energy Efficiency segment general and administrative expense compared to 2014 was due to increases in personnel and related costs to support the growth of our LED lighting and Energy Efficiency Services operations and, in particular, the additional costs associated with our retail energy services operations which we acquired in September 2014. The 6.8% increase in our corporate and other unallocated costs during 2015 compared to 2014 was due primarily to an increase in incentive compensation costs, legal and accounting costs, and stock compensation expense which was partially offset by a greater percentage of overhead costs being allocated to our operating segments in 2015 compared to 2014.

*Selling, Marketing and Service Expenses.* Selling, marketing and service expenses consist of personnel and related overhead costs, including commissions for sales and marketing activities, together with travel, advertising and promotion costs. The 29.6% increase in consolidated selling, marketing and service expenses in 2015, as compared to 2014, was due to increases in salaries due to investments in sales teams, increases in business development costs to promote growth, and increased travel expenses. The following table provides further detail of our selling, marketing and service expenses by expense category for the periods indicated (dollars in thousands):

|   | Year Ended<br>December 31, |                 | Period-over-Period<br>Difference |              |
|---|----------------------------|-----------------|----------------------------------|--------------|
|   | 2015                       | 2014            | \$                               | %            |
| <b>Consolidated Selling, Marketing and Service:</b> |                            |                 |                                  |              |
| Salaries  | \$ 4,845                   | \$ 3,926        | \$ 919                           | 23.4%        |
| Commission  | 2,527                      | 1,846           | 681                              | 36.9%        |
| Travel  | 1,658                      | 1,409           | 249                              | 17.7%        |
| Advertising and promotion                           | 1,844                      | 1,247           | 597                              | 47.9%        |
| Bad debt expense (recovery)                         | 450                        | 435             | 15                               | 3.4%         |
| Vehicle lease and rental                            | 199                        | 27              | 172                              | 637.0%       |
| <b>Total</b>  | <b>\$ 11,523</b>           | <b>\$ 8,890</b> | <b>\$ 2,633</b>                  | <b>29.6%</b> |

The following table provides further detail of our selling, marketing and service expenses by segment for the periods indicated (dollars in thousands):

|  | Year Ended<br>December 31, |                 | Period-over-Period<br>Difference |              |
|--|----------------------------|-----------------|----------------------------------|--------------|
|  | 2015                       | 2014            | \$                               | %            |
| <b>Segment Selling, Marketing and Service Expense:</b> |                            |                 |                                  |              |
| Distributed Generation                                 | \$ 4,907                   | \$ 3,818        | \$ 1,089                         | 28.5%        |
| Solar Energy   | 645                        | 422             | 223                              | 52.8%        |
| Utility Infrastructure                                 | 1,621                      | 1,445           | 176                              | 12.2%        |
| Energy Efficiency                                      | 2,690                      | 2,197           | 493                              | 22.4%        |
| Unallocated costs                                      | 1,660                      | 1,008           | 652                              | 64.7%        |
| <b>Total</b>   | <b>\$ 11,523</b>           | <b>\$ 8,890</b> | <b>\$ 2,633</b>                  | <b>29.6%</b> |



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*Depreciation and Amortization Expenses.* Depreciation and amortization expenses include the depreciation of property, plant and equipment and the amortization of certain intangible assets including capitalized software development costs and other intangible assets acquired in our recent acquisitions.

The following table provides detail of our depreciation and amortization expense by segment for the periods indicated (dollars in thousands):

|   | Year Ended<br>December 31, |                 | Period-over-Period<br>Difference |              |
|---|----------------------------|-----------------|----------------------------------|--------------|
|   | 2015                       | 2014            | \$                               | %            |
| <b>Segment Depreciation and Amortization:</b> |                            |                 |                                  |              |
| Distributed Generation                        | \$ 4,380                   | \$ 3,335        | \$ 1,045                         | 31.3%        |
| Solar Energy                                  | 157                        | 102             | 55                               | 53.9%        |
| Utility Infrastructure                        | 3,266                      | 3,446           | (180)                            | (5.2)%       |
| Energy Efficiency                             | 1,545                      | 1,357           | 188                              | 13.9%        |
| Unallocated costs                             | 1,177                      | 662             | 515                              | 77.8%        |
| <b>Total</b>                                  | <b>\$ 10,525</b>           | <b>\$ 8,902</b> | <b>\$ 1,623</b>                  | <b>18.2%</b> |

The 18.2% increase in consolidated depreciation and amortization expenses in 2015, compared to 2014, primarily reflects increased amortization expense associated with intangible assets acquired as part of our 2014 acquisition of our mission critical data center energy services operations, as well as depreciation resulting from capital investments. These capital investments are primarily investments in PowerSecure-owned Distributed Generation segment systems for projects deployed under our recurring revenue model.

*Restructuring Charges.* Restructuring charges consist of costs incurred in connection with periodic initiatives to realign operations, reduce employee counts, eliminate products, exit certain activities, change manufacturing sources, and other actions designed to reduce our cost structure and improve productivity. The following table provides detail of our restructuring charges by reportable segment for the periods indicated (dollars in thousands):

|                                       | Year Ended<br>December 31, |               | Period-over-Period<br>Difference |               |
|---------------------------------------|----------------------------|---------------|----------------------------------|---------------|
|                                       | 2015                       | 2014          | \$                               | %             |
| <b>Segment Restructuring Charges:</b> |                            |               |                                  |               |
| Distributed Generation                | \$ 442                     | \$            | \$ 442                           | n/m           |
| Solar Energy                          |                            |               |                                  | n/m           |
| Utility Infrastructure                | 718                        |               | 718                              | n/m           |
| Energy Efficiency                     | 35                         | 427           | (392)                            | (91.8)%       |
| Corporate and other                   | 96                         |               | 96                               | n/m%          |
| <b>Total</b>                          | <b>\$ 1,291</b>            | <b>\$ 427</b> | <b>\$ 864</b>                    | <b>202.3%</b> |

We do not expect to incur any additional restructuring charges in 2016 in connection with our 2015 business realignment program that was initiated and substantially completed in the fourth quarter 2015.



**Table of Contents***Other Income and Expenses*

Our other income and expenses include interest income, interest expense, miscellaneous settlements with third parties, and income taxes. None of these other income or expense amounts are allocated to our reportable segments for purposes of evaluating segment performance. The following table sets forth our consolidated other income and expenses for the periods indicated (dollars in thousands):

|                              | Year Ended<br>December 31, |          | Period-over-Period<br>Difference |          |
|------------------------------|----------------------------|----------|----------------------------------|----------|
|                              | 2015                       | 2014     | \$                               | %        |
| Other income (expense)       | \$ 6                       | \$ 215   | \$ (209)                         | (97.2)%  |
| Interest expense             | (1,141)                    | (1,236)  | 95                               | (7.7)%   |
| Income tax benefit (expense) | (4,058)                    | 4,098    | (8,156)                          | (199.0)% |
| Total                        | \$ (5,193)                 | \$ 3,077 | \$ (8,270)                       | (268.8)% |

*Other Income (expense).* Our other income in 2015 consisted solely of interest income earned on interest-bearing cash and cash equivalent balances. Our other income in 2014 consisted of interest income as well as proceeds from a \$0.2 million breach of contract settlement. The amount of interest income during 2015 was less compared to 2014 due to a reduction in the average balance of our interest-bearing cash and cash equivalent balances.

*Interest Expense.* Interest expense decreased during 2015, as compared to 2014. The decrease in our interest expense reflects the effects on interest expense of a reduction in balances outstanding on our \$25.0 million term loan, capital lease obligation, and our prior existing term loan due to regular payments made on those obligations over the year. These decreases were partially offset by interest expense on short-term borrowings on the revolving portion of our credit facility during the fourth quarter 2015.

*Income Taxes.* The income tax expense or benefit we record is the result of applying our annual effective tax rate by our pre-tax income or loss. Our effective tax rate and our income tax expense or benefit includes the effects of permanent differences between our book and taxable income, changes in our deferred tax assets and liabilities, changes in the valuation allowance for our net deferred tax assets, federal and state income taxes in various state jurisdictions in which we have taxable activities, and expenses associated with uncertain tax positions that we have taken or expense reductions from uncertain tax positions as a result of a lapse of the applicable statute of limitations. Our overall effective tax rate was 41.0% in 2015 compared to a 37.0% effective tax rate in 2014. We recorded an income tax expense during 2015 whereas we recorded an income tax benefit during 2014 as we incurred a pre-tax loss during that period.



**Table of Contents****2014 Compared to 2013***Revenues*

The following table summarizes our revenues, including intersegment revenues, by our reportable segments for the periods indicated (dollars in thousands):

|                           | Year Ended<br>December 31, |                   | Period-over-Period<br>Difference |               |
|---------------------------|----------------------------|-------------------|----------------------------------|---------------|
|                           | 2014                       | 2013              | \$                               | %             |
| <b>Segment Revenues:</b>  |                            |                   |                                  |               |
| Distributed Generation    | \$ 77,408                  | \$ 95,055         | \$ (17,647)                      | (18.6)%       |
| Solar Energy              | 22,609                     | 16,481            | 6,128                            | 37.2%         |
| Utility Infrastructure    | 103,204                    | 111,654           | (8,450)                          | (7.6)%        |
| Energy Efficiency         | 54,038                     | 47,044            | 6,994                            | 14.9%         |
| Intersegment Eliminations | (602)                      |                   | (602)                            | n/m           |
| <b>Total</b>              | <b>\$ 256,657</b>          | <b>\$ 270,234</b> | <b>\$ (13,577)</b>               | <b>(5.0)%</b> |

Our consolidated revenues in 2014 of \$256.7 million decreased \$13.6 million, or 5.0%, compared to 2013, due to a reduction in revenues from our Distributed Generation and Utility Infrastructure reportable segments, partially offset by an increases in our Energy Efficiency and Solar Energy reportable segments.

The decrease in our revenues in 2014 over 2013 consisted of an \$17.6 million, or 18.6%, reduction in revenues from our Distributed Generation segment and an \$8.5 million, or 7.6%, decrease from our Utility Infrastructure segments. These revenue decreases were partially offset by a \$7.0 million, or 14.9%, increase in revenues from our Energy Efficiency segment and a \$6.1 million, or 37.2% increase in revenues from our Solar Energy segment. The year-over-year decrease in our Distributed Generation segment revenues was driven by a reduction in our traditional customer-owned turn-key project sales due to a slower conversion rate of sales pipeline opportunities to contracts, particularly larger pipeline opportunities within the data center market. The decrease in our Utility Infrastructure revenue was primarily due to us being more selective in our new business development activity in early 2014, which negatively impacted year-over-year revenues, as we focused on improving efficiencies and productivity in our UtilityServices operations. In addition, our UtilityServices revenues were impacted by the ongoing effects of unfavorable service arrangements and work assignments from a large utility customer early during 2014. In June 2014, we successfully modified the service arrangement with the utility customer to improve the terms of our ongoing service, including positive adjustments to future pricing, work assignments and expected improvements in the ongoing scope of work. The favorable effects of the modified terms, however, were not fully realized in 2014 due to transitional matters. The year-over-year increase in our Energy Efficiency segment revenues in 2014 compared 2013 included an \$8.7 million increase in revenues from our LED lighting products and services due to the enhanced and broader marketing efforts under our reorganized LED lighting operation. This LED lighting revenue increase was partially offset by a \$1.7 million decrease in revenues from energy efficiency services that mostly reflects transitional acquisition issues and new business lead times affecting the year-over-year comparison. We provide our energy efficiency solutions as a subcontractor to ESCOs through the Energy Efficiency Services business we acquired in early 2013, and throughout 2013 we realized substantial revenue from project completions from acquired backlog, while new Energy Efficiency Services work in 2014 and beyond is based on newly created orders after normal sales lead times. The year-over-year increase in our Solar Energy segment revenues in 2014 compared 2013 was due an

overall increase in customer demand driven, in part, by the anticipated expiration or reduction of federal alternative energy investment tax credits at the end of 2016.

**Table of Contents***Gross Profit and Gross Profit Margin*

The following table summarizes our cost of sales by reportable segment, along with our segment gross profit and gross profit margins for the periods indicated (dollars in thousands):

|  | Year Ended<br>December 31, |                   | Period-over-Period<br>Difference |               |
|--|----------------------------|-------------------|----------------------------------|---------------|
|  | 2014                       | 2013              | \$                               | %             |
| Segment Cost of Sales (excluding depreciation and amortization): |                            |                   |                                  |               |
| Distributed Generation   | \$ 50,298                  | \$ 57,532         | \$ (7,234)                       | (12.6)%       |
| Solar Energy   | 18,350                     | 12,822            | 5,528                            | 43.1%         |
| Utility Infrastructure   | 88,199                     | 89,908            | (1,709)                          | (1.9)%        |
| Energy Efficiency  | 35,843                     | 38,389            | (2,546)                          | (6.6)%        |
| Intersegment Eliminations  | (602)                      |                   | (602)                            | n/m           |
| <b>Total</b>   | <b>\$ 192,088</b>          | <b>\$ 198,651</b> | <b>\$ (6,563)</b>                | <b>(3.3)%</b> |
| Segment Gross Profit:  |                            |                   |                                  |               |
| Distributed Generation   | \$ 27,110                  | \$ 37,523         | \$ (10,413)                      | (27.8)%       |
| Solar Energy   | 4,259                      | 3,659             | 600                              | 16.4%         |
| Utility Infrastructure   | 15,005                     | 21,746            | (6,741)                          | (31.0)%       |
| Energy Efficiency  | 18,195                     | 8,655             | 9,540                            | 110.2%        |
| <b>Total</b>   | <b>\$ 64,569</b>           | <b>\$ 71,583</b>  | <b>\$ (7,014)</b>                | <b>(9.8)%</b> |
| Segment Gross Profit Margins:                                    |                            |                   |                                  |               |
| Distributed Generation   | 35.0%                      | 39.5%             |                                  |               |
| Solar Energy   | 18.8%                      | 22.2%             |                                  |               |
| Utility Infrastructure   | 14.5%                      | 19.5%             |                                  |               |
| Energy Efficiency  | 33.7%                      | 18.4%             |                                  |               |
| <b>Total</b>   | <b>25.2%</b>               | <b>26.5%</b>      |                                  |               |

The 3.3% decrease in our consolidated cost of sales and services for 2014 compared to 2013 was driven by the decrease in costs associated with the 5.0% decrease in sales, as well as the effects of the \$3.7 million write-down of Energy Efficiency segment inventory in 2013 in connection with our 2013 restructuring and realignment actions that is included in our 2013 cost of sales compared to the \$0.3 million inventory write-down in 2014, and other factors discussed below leading to the reduction in our gross profit margin.

Our consolidated gross profit decreased \$7.0 million, or 9.8%, in 2014 compared to 2013. As a percentage of revenue, our consolidated gross margin in 2014 was 25.2%, a decrease of 1.3 percentage point compared to 2013. This year-over-year gross profit margin decrease was driven primarily by the effect of inefficiencies in our Utility Infrastructure segment, in particular our UtilityServices group, driven by lower-than-expected revenues, and unfavorable pricing and service assignments with one of our major utility customers, especially during the first six months of 2014. These unfavorable terms caused us to incur higher levels of personnel and equipment costs in our cost of goods sold as a percentage of our revenues, driving the gross profit margin on our UtilityServices revenue to 10.8% for 2014, and our overall Utility Infrastructure segment gross profit margin to 14.5%. This compares to 19.5%

Utility Infrastructure segment gross profit margin in 2013. In June 2014, we successfully modified the service arrangement with the utility customer to improve the terms of our ongoing service. The modifications include positive adjustments to future pricing, work assignments, and expected improvements in the ongoing scope of work. Our Distributed Generation segment gross profit margins were 35.0% in 2014 compared to 39.5% in 2013, due to differences in the mix of projects period-to-period. Our Solar Energy segment gross profit margins were 18.8% in 2014 compared to 22.2% during 2013. Our Energy Efficiency segment gross profit margin was 33.7% in 2014 compared to 18.4% in 2013. The year-over-year gross profit margin increase in our Energy Efficiency segment

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gross profit margins was due to increases in our Energy Efficiency Services margins and our LED product margins due to the favorable effects of our acquisition of Solais in the second quarter 2013 and our 2013 restructuring and realignment program which utilized this acquisition to improve our manufacturing and sourcing processes and lower our cost of sales.

An important driver in the period-over-period change in our consolidated gross profit margin is the relative gross profit margins we generally earn in each of our Distributed Generation, Utility Infrastructure and Energy Efficiency reportable segments. The gross profit margin we realize in each of our reportable segments largely correlates to the amount of value-added products and services we deliver, with highly engineered, turn-key projects realizing higher gross profit margins due to the benefits they deliver our customers and the value we deliver because we are vertically integrated. Because of these gross profit margin differences, changes in the mix of our segment revenues, and individual product lines within those segments, affect our consolidated gross profit margin results.

*Operating Expenses*

The following table sets forth our consolidated operating expenses for the periods indicated (dollars in thousands):

|   | Year Ended<br>December 31, |           | Period-over-Period<br>Difference |       |
|---|----------------------------|-----------|----------------------------------|-------|
|   | 2014                       | 2013      | \$                               | %     |
| <b>Consolidated Operating Expenses:</b> |                            |           |                                  |       |
| General and administrative              | \$ 56,419                  | \$ 47,071 | \$ 9,348                         | 19.9% |
| Selling, marketing and service          | 8,890                      | 7,381     | 1,509                            | 20.4% |
| Depreciation and amortization           | 8,902                      | 7,287     | 1,615                            | 22.2% |
| Restructuring charges                   | 427                        | 1,205     | (778)                            | n/m   |
| Total                                   | \$ 74,638                  | \$ 62,944 | \$ 11,694                        | 18.6% |

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The following table sets forth our operating expenses by reportable segment for the periods indicated (dollars in thousands):

|   | Year Ended<br>December 31, |           | Period-over-Period<br>Difference |         |
|---|----------------------------|-----------|----------------------------------|---------|
|   | 2014                       | 2013      | \$                               | %       |
| <b>Distributed Generation:</b>                  |                            |           |                                  |         |
| General and administrative                      | \$ 13,147                  | \$ 11,889 | \$ 1,258                         | 10.6%   |
| Selling, marketing and service                  | 3,818                      | 3,668     | 150                              | 4.1%    |
| Depreciation and amortization                   | 3,335                      | 2,672     | 663                              | 24.8%   |
| Restructuring charges                           |                            |           |                                  | n/m     |
| Total Distributed Generation operating expenses | \$ 20,300                  | \$ 18,229 | \$ 2,071                         | 11.4%   |
| <b>Solar Energy:</b>                            |                            |           |                                  |         |
| General and administrative                      | \$ 2,287                   | \$ 1,844  | \$ 443                           | 24.0%   |
| Selling, marketing and service                  | 422                        | 625       | (203)                            | (32.5)% |
| Depreciation and amortization                   | 102                        | 88        | 14                               | 15.9%   |
| Restructuring charges                           |                            |           |                                  | n/m     |
| Total Distributed Generation operating expenses | \$ 2,811                   | \$ 2,557  | \$ 254                           | 9.9%    |
| <b>Utility Infrastructure:</b>                  |                            |           |                                  |         |
| General and administrative                      | \$ 11,255                  | \$ 10,901 | \$ 354                           | 3.2%    |
| Selling, marketing and service                  | 1,445                      | 1,585     | (140)                            | (8.8)%  |
| Depreciation and amortization                   | 3,446                      | 2,658     | 788                              | 29.6%   |
| Restructuring charges                           |                            |           |                                  | n/m     |
| Total Utility Infrastructure operating expenses | \$ 16,146                  | \$ 15,144 | \$ 1,002                         | 6.6%    |
| <b>Energy Efficiency:</b>                       |                            |           |                                  |         |
| General and administrative                      | \$ 10,543                  | \$ 9,674  | \$ 869                           | 9.0%    |
| Selling, marketing and service                  | 2,197                      | 1,369     | 828                              | 60.5%   |
| Depreciation and amortization                   | 1,357                      | 1,337     | 20                               | 1.5%    |
| Restructuring charges                           | 427                        | 1,205     | (778)                            | (64.6)% |
| Total Energy Efficiency operating expenses      | \$ 14,524                  | \$ 13,585 | \$ 939                           | 6.9%    |
| <b>Corporate and other:</b>                     |                            |           |                                  |         |
| General and administrative                      | \$ 19,187                  | \$ 12,763 | \$ 6,424                         | 50.3%   |
| Selling, marketing and service                  | 1,008                      | 134       | 874                              | 652.2%  |
| Depreciation and amortization                   | 662                        | 532       | 130                              | 24.4%   |
| Restructuring charges                           |                            |           |                                  | n/m%    |
| Total corporate and other unallocated costs     | \$ 20,857                  | \$ 13,429 | \$ 7,428                         | 55.3%   |

|                                       |           |           |           |       |
|---------------------------------------|-----------|-----------|-----------|-------|
| Total consolidated operating expenses | \$ 74,638 | \$ 62,944 | \$ 11,694 | 18.6% |
|---------------------------------------|-----------|-----------|-----------|-------|

The year-over-year increase in operating expenses was driven by an increase in general and administrative expense due to increases in personnel, employee benefits and insurance, stock compensation expense, and legal fees to support our investments in new business opportunities and expected future growth, and increase in selling expenses due to additional sales executives and commission expense, and depreciation and amortization from our investments in utility infrastructure equipment, company-owned distributed generation systems, and acquisition-related intangibles. The increase in personnel also includes expenses to continue to strengthen our safety resources and programs.

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Our operating expenses, excluding the 2014 and 2013 restructuring charges, as a percentage of our revenues increased by 6.1 percentage points in 2014 compared to 2013. This increase reflects operating inefficiencies we experienced in 2014 due to declining revenue during the period.

*General and Administrative Expenses.* General and administrative expenses include personnel wages, benefits, stock compensation, and bonuses and related overhead costs for the support and administrative functions, together with unallocated corporate and other administrative costs. The overall \$9.3 million, or 19.9%, increase in our consolidated general and administrative expenses in 2014, as compared to 2013, was due primarily to an increase in personnel, employee benefits and insurance, stock compensation, travel, professional fees and consulting, rent and other expenses to support our investments in new business opportunities and expected future growth. The following table provides further details of our general and administrative expenses by expense category for the periods indicated (dollars in thousands):

|   | Year Ended<br>December 31, |                  | Period-over-Period<br>Difference |              |
|---|----------------------------|------------------|----------------------------------|--------------|
|   | 2014                       | 2013             | \$                               | %            |
| <b>Consolidated General and Administrative Expense:</b> |                            |                  |                                  |              |
| Personnel costs   | \$ 32,150                  | \$ 27,594        | \$ 4,556                         | 16.5%        |
| Vehicle lease and rental                                | 3,085                      | 3,026            | 59                               | 1.9%         |
| Insurance   | 2,770                      | 1,402            | 1,368                            | 97.6%        |
| Rent-office and equipment                               | 1,685                      | 1,448            | 237                              | 16.4%        |
| Professional fees and consulting                        | 2,158                      | 857              | 1,301                            | 151.8%       |
| Travel  | 2,408                      | 2,314            | 94                               | 4.1%         |
| Telephone   | 908                        | 940              | (32)                             | (3.4)%       |
| Meals and entertainment                                 | 874                        | 855              | 19                               | 2.2%         |
| Utilities   | 343                        | 346              | (3)                              | (0.9)%       |
| Other   | 3,167                      | 2,434            | 733                              | 30.1%        |
| Corporate costs   | 6,871                      | 5,855            | 1,016                            | 17.4%        |
| <b>Total</b>  | <b>\$ 56,419</b>           | <b>\$ 47,071</b> | <b>\$ 9,348</b>                  | <b>19.9%</b> |

The following table provides detail of our general and administrative expenses by segment along with unallocated corporate and other administrative costs for the periods indicated (dollars in thousands):

|  | Year Ended<br>December 31, |           | Period-over-Period<br>Difference |       |
|--|----------------------------|-----------|----------------------------------|-------|
|  | 2014                       | 2013      | \$                               | %     |
| <b>Segment General and Administrative Expense:</b> |                            |           |                                  |       |
| Distributed Generation                             | \$ 13,147                  | \$ 11,889 | \$ 1,258                         | 10.6% |
| Solar Energy                                       | 2,287                      | 1,844     | 443                              | 24.0% |
| Utility Infrastructure                             | 11,255                     | 10,901    | 354                              | 3.2%  |
| Energy Efficiency                                  | 10,543                     | 9,674     | 869                              | 9.0%  |
| Corporate and other unallocated costs              | 19,187                     | 12,763    | 6,424                            | 50.3% |



|       |           |           |          |       |
|-------|-----------|-----------|----------|-------|
| Total | \$ 56,419 | \$ 47,071 | \$ 9,348 | 19.9% |
|-------|-----------|-----------|----------|-------|

The 10.6% increase in our 2014 Distributed Generation segment general and administrative expense compared to 2013 was due to increases in personnel costs. The 24.0% increase in our 2014 Solar Energy segment general and administrative expense compared to 2013 was due to increases in personnel costs to support the growth of this segment. The 3.2% increase in our 2014 Utility Infrastructure segment general and administrative expense compared to 2013 was due to increases in personnel, insurance, rent, and vehicle lease and rental costs. The 9.0% increase in our 2014 Energy Efficiency segment general and administrative expense compared to 2013 was due to the incremental costs related to our Solais and Energy Efficiency Services business acquisitions, which occurred in April and February 2013, respectively, partially offset by reductions in personnel and overhead savings from our recent restructuring of our LED operations. The increase in our unallocated corporate and other general and administrative expenses during 2014 as compared to 2013 was due primarily to an increase in unallocated personnel costs, insurance, stock compensation expense and legal costs.

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*Selling, Marketing and Service Expenses.* The 20.4% increase in consolidated selling, marketing and service expenses in 2014, as compared to 2013, was due to increases in salaries, commissions, travel, and advertising and promotion, driven by the recent increase in our backlog and sales activities to drive future revenues. In addition, increases in the breadth and diversity of our customers resulted in an increase in bad debt expenses. The following table provides further detail of our selling, marketing and service expenses by expense category for the periods indicated (dollars in thousands):

|   | Year Ended<br>December 31, |                 | Period-over-Period<br>Difference |              |
|---|----------------------------|-----------------|----------------------------------|--------------|
|   | 2014                       | 2013            | \$                               | %            |
| <b>Consolidated Selling, Marketing and Service:</b> |                            |                 |                                  |              |
| Salaries  | \$ 3,926                   | \$ 2,846        | \$ 1,080                         | 37.9%        |
| Commission  | 1,846                      | 1,795           | 51                               | 2.8%         |
| Travel  | 1,409                      | 1,265           | 144                              | 11.4%        |
| Advertising and promotion                           | 1,247                      | 1,134           | 113                              | 10.0%        |
| Bad debt expense (recovery)                         | 435                        | 341             | 94                               | 27.6%        |
| Vehicle lease and rental                            | 27                         |                 | 27                               | n/m          |
| <b>Total</b>  | <b>\$ 8,890</b>            | <b>\$ 7,381</b> | <b>\$ 1,509</b>                  | <b>20.4%</b> |

The following table provides further detail of our selling, marketing and service expenses by reportable segment for the periods indicated (dollars in thousands):

|  | Year Ended<br>December 31, |                 | Period-over-Period<br>Difference |              |
|--|----------------------------|-----------------|----------------------------------|--------------|
|  | 2014                       | 2013            | \$                               | %            |
| <b>Segment Selling, Marketing and Service Expense:</b> |                            |                 |                                  |              |
| Distributed Generation                                 | \$ 3,818                   | \$ 3,668        | \$ 150                           | 4.1%         |
| Solar Energy   | 422                        | 625             | (203)                            | (32.5)%      |
| Utility Infrastructure                                 | 1,445                      | 1,585           | (140)                            | (8.8)%       |
| Energy Efficiency                                      | 2,197                      | 1,369           | 828                              | 60.5%        |
| Unallocated costs                                      | 1,008                      | 134             | 874                              | 652.2%       |
| <b>Total</b>   | <b>\$ 8,890</b>            | <b>\$ 7,381</b> | <b>\$ 1,509</b>                  | <b>20.4%</b> |

*Depreciation and Amortization Expenses.* The following table provides detail of our depreciation and amortization expense by reportable segment for the periods indicated (dollars in thousands):

|   | Year Ended<br>December 31, |      | Period-over-Period<br>Difference |   |
|---|----------------------------|------|----------------------------------|---|
|   | 2014                       | 2013 | \$                               | % |
| <b>Segment Depreciation and Amortization:</b> |                            |      |                                  |   |

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|                        |                 |                 |                 |              |
|------------------------|-----------------|-----------------|-----------------|--------------|
| Distributed Generation | \$ 3,335        | \$ 2,672        | \$ 663          | 24.8%        |
| Solar Energy           | 102             | 88              | 14              | 15.9%        |
| Utility Infrastructure | 3,446           | 2,658           | 788             | 29.6%        |
| Energy Efficiency      | 1,357           | 1,337           | 20              | 1.5%         |
| Unallocated costs      | 662             | 532             | 130             | 24.4%        |
| <b>Total</b>           | <b>\$ 8,902</b> | <b>\$ 7,287</b> | <b>\$ 1,615</b> | <b>22.2%</b> |

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The 22.2% increase in consolidated depreciation and amortization expenses in 2014, as compared to 2013, primarily reflects increased depreciation resulting from recent capital investments, as well as amortization expense associated with acquisition related intangible assets. These capital investments are investments in PowerSecure-owned Distributed Generation segment systems for projects deployed under our recurring revenue model as well as investments in Utility Infrastructure segment equipment to support its anticipated growth. As our capital investments continue to grow, we expect our depreciation and amortization expenses to increase.

*Restructuring Charges.* Restructuring charges consist of costs associated with realigning operations, reducing employee counts, eliminating products, exiting certain activities, changing manufacturing sourcing, and other actions designed to reduce our cost structure and improve productivity.

Our 2013 acquisitions provided us with a new, distinct set of opportunities to restructure and realign our operations to increase operating margins. During the fourth quarter 2013, we initiated business realignment actions and incurred a charge in the amount of \$4.9 million to realign our operations to gain cost and performance efficiencies which continued into the first quarter 2014. These actions, which primarily involved our Energy Efficiency segment, consisted of the sale of manufacturing equipment and parts inventory, eliminating certain LED products, reorganization of the leadership roles, re-sourcing the manufacturing of our LED lighting products directly from low-cost manufacturers, and the reduction of our overhead cost structure by eliminating duplicative facilities and personnel involved in production, sourcing, warehousing and distribution activities. The inventory write-offs in the amount of \$3.7 million in 2013 are included in cost of sales. The expenses associated with the remaining 2013 business realignment charges totaled \$1.2 million. As we completed these 2013 business realignment initiatives in the first quarter 2014, we incurred additional pre-tax restructuring charges totaling \$0.7 million in the first quarter 2014. The inventory write-off component of the charge in the amount of \$0.3 million in the first quarter 2014 is included in cost of sales. The expenses associated with the remaining business realignment charges totaled \$0.4 million in 2014.

*Other Income and Expenses*

The following table sets forth our other income and expenses for the periods indicated (dollars in thousands):

|                              | Year Ended<br>December 31, |            | Period-over-Period<br>Difference |        |
|------------------------------|----------------------------|------------|----------------------------------|--------|
|                              | 2014                       | 2013       | \$                               | %      |
| Other income (expense)       | \$ 215                     | \$ 81      | \$ 134                           | 165.4% |
| Interest expense             | (1,236)                    | (817)      | (419)                            | 51.3%  |
| Income tax benefit (expense) | 4,098                      | (3,672)    | 7,770                            | 211.6% |
| Total                        | \$ 3,077                   | \$ (4,408) | \$ 7,485                         | 169.8% |

*Other Income (Expense).* The amount of other income increased during 2014 compared to 2013 due to proceeds from a \$0.2 million breach of contract settlement. This income was partially offset by a reduction in interest earned on the balance of our restricted annuity contract.

*Interest Expense.* Interest expense increased \$0.4 million during 2014 compared to 2013. The increase in our interest expense reflects interest on our \$25.0 million term loan, which we completed in June 2013 and financing charges incurred on a letter of credit issued during the third quarter 2014 in connection with recently awarded utility scale Solar Energy segment projects, partially offset by a reduction in balances outstanding on our capital lease obligation

and our term loans due to regular payments made on those obligations over the year.

*Income Taxes.* Our overall effective tax rate of 37.0% in 2014 decreased, as compared to the 46.5% effective tax rate in 2013 due to the reduction in deferred tax assets associated with stock compensation in 2013 for which there was no similar deferred tax asset reduction in 2014. We recorded an income tax benefit during 2014 because we incurred a pre-tax loss during the period, while we recorded a tax expense in 2013 resulting from our pre-tax net income for 2013.

*Non-controlling Interest.* The non-controlling interest we recorded during 2013 represents the minority shareholders equity in the income or loss of PowerSecure Solar and IES and is reflected as a reduction or addition

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to net income or losses to derive income or loss attributable to PowerSecure International stockholders. In May 2013, we acquired the minority shareholder interests in each of these entities. As a result of these non-controlling interest acquisitions, both PowerSecure Solar and IES are now wholly-owned subsidiaries and there are no more non-controlling interests. The decrease in the addition for the non-controlling interest in the loss of our majority-owned subsidiaries in 2014, as compared to 2013, is a result of our acquisition of the non-controlling interests in May 2013.

## **Liquidity and Capital Resources**

### ***Overview***

We have historically financed our operations and growth primarily through a combination of cash on hand, cash generated from operations, borrowings under credit facilities, leasing, and proceeds from sales of equity. On a going forward basis, we expect to require capital primarily to finance our:

operations;

inventory;

accounts receivable;

property and equipment expenditures, including capital expenditures related to distributed generation PowerSecure-owned recurring revenue projects;

software purchases or development;

debt service requirements;

lease obligations;

deferred compensation obligations;

restructuring and cost reduction obligations; and

acquisitions and other business transactions.

### ***Working Capital***

At December 31, 2015, we had working capital of \$75.9 million, including \$18.4 million in cash and cash equivalents, compared to working capital of \$70.8 million, including \$33.8 million in cash and cash equivalents at December 31, 2014. During 2015, our working capital balances, including our cash and cash equivalents, have been affected by our progress towards completion of two large-scale Solar Energy projects that we were awarded in July 2014. Because the solar panels (which we acquire from a third-party supplier) are a material component of the project costs, there are periods when our purchase obligations are due in advance of progress payments from our customer. The timing of cash payments to our panel supplier and cash receipts from our customer have affected the balances of our cash and cash equivalents, accounts receivable, inventory, accounts payable and accrued expenses. We expect similar effects in 2016 and beyond as we move further towards completion of these large-scale solar projects, and the effects on our working capital, including our cash and cash equivalents, may be material. Changes in the components of our working capital during 2015, 2014 and 2013 are explained in greater detail below.

During the fourth quarter of 2015, we borrowed and subsequently repaid \$15.0 million on the revolving portion of our credit facility partially to finance the activities related to the large-scale Solar Energy projects described above and we have borrowed additional amounts on the revolving portion of our credit facility in 2016. At December 31, 2015 and 2014, we had \$36.0 million and \$20.0 million, respectively, of available and unused borrowing capacity from our revolving credit facility, within the limits of our financial covenants. As a result of borrowings from our revolving credit facility during the first quarter 2016 through the date of this report, at March 14, 2016, an aggregate balance of \$25.0 million was outstanding, and there was approximately \$11.0 million available and unused borrowing capacity within the limits of our financial covenants under our revolving credit facility. The availability of this capacity under our credit facility includes restrictions on the use of proceeds, and is dependent upon our ability to satisfy certain financial and operating covenants including financial ratios, as discussed below.

**Table of Contents****Cash Flows**

The following table summarizes our cash flows for the periods indicated (dollars in thousands):

|   | <b>Year Ended December 31,</b> |                    |                  |
|---|--------------------------------|--------------------|------------------|
|   | <b>2015</b>                    | <b>2014</b>        | <b>2013</b>      |
| Net cash provided by (used in) operating activities         | \$ 713                         | \$ 12,056          | \$ (2,164)       |
| Net cash used in investing activities                       | (12,037)                       | (26,182)           | (23,750)         |
| Net cash provided by (used in) financing activities         | (4,009)                        | (3,014)            | 57,707           |
| Currency exchange rate changes                              | (9)                            |                    |                  |
| <b>Net increase (decrease) in cash and cash equivalents</b> | <b>\$ (15,342)</b>             | <b>\$ (17,140)</b> | <b>\$ 31,793</b> |

**Cash Provided by (Used in) Operating Activities**

Cash provided by (used in) operating activities consists primarily of net income (loss) adjusted for certain non-cash items including depreciation and amortization and stock-based compensation expenses. Cash provided by (used in) operating activities also include the effect of changes in working capital and other activities.

Cash provided by operating activities for 2015 was approximately \$0.7 million and consisted of \$5.8 million of net income and \$13.9 million of non-cash operating expenses, partially offset by \$19.0 million used by changes in working capital balances. The non-cash items consisted primarily of \$10.5 million of depreciation and amortization expense, \$2.6 million of stock compensation expense and \$0.8 million loss on asset disposals. Cash used by working capital and other activities consisted primarily of a \$55.5 million increase in accounts receivable and a \$28.9 million increase in inventories. The cash used by these working capital account changes were partially offset by a \$48.0 million increase in accounts payable, a \$13.6 million increase in accrued and other liabilities and a net \$3.8 million increase in deferred tax liabilities. The fluctuations in our accounts receivable, inventories, accounts payable and our accrued and other liabilities is a function of the timing of customer remittances, payments to our vendors, and our inventory, advance billings and accrued project costs on projects in process, respectively. These working capital accounts can and do fluctuate significantly from period to period, depending on the timing and size of individual projects.

Cash provided by operating activities during 2014 was approximately \$12.1 million and consisted of \$8.0 million provided by changes in working capital balances and \$11.1 million of non-cash operating expenses partially offset by our net loss of \$7.0 million. The non-cash items consisted primarily of \$8.9 million of depreciation and amortization expense and \$2.1 million of stock compensation expense. Cash provided by working capital and other activities consisted primarily of a \$8.6 million reduction in accounts receivable and increases in accounts payable and accrued and other liabilities in the amount of \$15.3 million and \$8.0 million, respectively. The cash provided by these working capital account changes were partially offset by increases in inventory of \$17.7 million, a \$4.4 million reduction in net deferred tax liabilities, and a net \$1.8 million change in other current and noncurrent assets and liabilities. The increase in inventory was primarily due to a \$7.5 million increase related to the large-scale Solar Energy projects, a \$7.4 million increase in equipment inventory related to our Distributed Generation operations, and a \$2.8 million increase in our LED inventory. The fluctuations in our accounts receivable, accounts payable and our accrued and other liabilities is a function of the timing of customer remittances, payments to our vendors, and our inventory, advance billings and accrued project costs on projects in process, respectively. These working capital accounts can and do fluctuate significantly from period to period, depending on the timing and size of individual projects.



Cash used in operating activities during 2013 was approximately \$2.2 million and consisted of net cash of \$14.5 million used by working capital and other activities, partially offset by our net income from continuing operations of \$4.2 million and non-cash items of \$8.1 million. The non-cash items consisted of depreciation and amortization, stock compensation expense and a loss from the sale of miscellaneous assets. Cash used by working capital and other activities consisted primarily of increases in our accounts receivable of \$26.0 million, a decrease of accrued and other liabilities of \$2.5 million, and a net \$1.7 million increase in other current and noncurrent assets and liabilities, partially offset by a \$4.2 million reduction in inventories, a \$8.2 million increase in accounts payable and a \$3.3 million increase in net deferred tax liabilities. The increases in our accounts receivable and accounts payable and the reduction of our inventories reflects the growth in our revenues and business activity in 2013 as

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compared to 2012, as our revenues and cost of sales increased \$108.2 million, or 66.8%, and \$87.7 million, or 79.0%, respectively, in 2013 compared to 2012. The increase in our accrued and other liabilities is a function of the timing of our advance billings and accrued project costs on projects in process, which can fluctuate significantly from period to period, depending on the timing and size of individual projects.

***Cash Used in Investing Activities***

Cash used in investing activities was \$12.0 million in 2015, \$26.2 million in 2014, and \$23.7 million in 2013. Historically, our principal cash investments have related to the acquisition and installation of equipment related to our recurring revenues sales, the acquisition of businesses or technologies, the purchase of equipment used in our production facilities, and the acquisitions of certain contract rights. During 2015, we used \$4.1 million to purchase and install equipment at our recurring revenue distributed generation sites, we used \$7.3 million principally to acquire operational assets, we used \$0.9 million to acquire ESCO Energy Services Company, Inc., and we received \$0.3 million cash proceeds from the sale of property plant and equipment. During 2014, we used \$7.0 million to purchase and install equipment at our recurring revenue distributed generation sites, we used \$5.8 million principally to acquire operational assets, we used \$13.8 million to acquire the mission critical energy services business from PDI and the electrical contracting business from Apex, and we received \$0.5 million cash proceeds from the sale of property plant and equipment. During 2013, we used \$14.3 million as partial consideration to acquire the Energy Efficiency Services, Solais Lighting, PowerLine and Encari businesses, we used \$5.1 million to purchase and install equipment at our recurring revenue distributed generation sites, and we used \$4.5 million principally to acquire operational assets.

***Cash Provided by (Used in) Financing Activities***

Cash used in financing activities was \$4.0 million in 2015 and \$3.0 million in 2014, while cash provided by financing activities was \$57.5 million in 2013. During 2015, we used \$4.7 million to make scheduled payments on our capital lease and term loan obligations, we used \$0.1 million to repurchase shares of our common stock and we received \$0.8 million from the exercise of stock options. During 2014, we used \$4.7 million to make scheduled payments on our capital lease and term loan obligations, we used \$0.4 million to repurchase shares of our common stock and we received \$2.1 million from the exercise of stock options. During 2013, we received \$34.4 million from the net proceeds of the public offering of 2.3 million shares of our common stock in August 2013, we received \$25.0 million from the proceeds of a term loan under our credit facility in June 2013, we received \$1.2 million from the exercise of stock options and we used \$2.8 million to make scheduled payments on our capital lease and term loan obligations.

***Capital Spending***

Our capital expenditures during 2015 were approximately \$11.4 million, of which we used \$4.1 million to purchase and install equipment for our PowerSecure-owned recurring revenue distributed generation systems, and we used \$7.3 million to purchase equipment and other capital items. Our capital expenditures during 2014 were approximately \$12.8 million, of which we used \$7.0 million to purchase and install equipment for our PowerSecure-owned recurring revenue distributed generation systems, and we used \$5.8 million to purchase equipment and other capital items, primarily to support the growth of our Utility Infrastructure products and services. Our capital expenditures during 2013 were approximately \$9.6 million, of which we used \$5.1 million to purchase and install equipment for our PowerSecure-owned recurring revenue distributed generation systems, and we used \$4.5 million to purchase equipment and other capital items, primarily to support the growth of our Utility Infrastructure product and services.

We anticipate making total capital expenditures of approximately \$16 million in 2016, including capital expenditures for our company-owned distributed generation systems deployed under long-term recurring revenue contracts, and operational assets, particularly for equipment used in our Utility Infrastructure business. Customer demand for our

Distributed Generation systems under recurring revenue contract arrangements, and economic and financial conditions could cause us to reduce or increase those capital expenditures. The majority of our capital spending has to date been and will continue to be used for investments in assets related to our recurring revenue projects as well as equipment to support the growth of our Utility Infrastructure product and services.

***Indebtedness***

*Long-Term Credit Facility* - We have a long-term credit facility with Citibank, N.A. ( Citibank ), as administrative agent and lender, and other lenders under a credit agreement that we first entered into with our

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lenders in August 2007 and have amended and restated from time-to-time. At December 31, 2014, our credit agreement with Citibank along with Branch Banking and Trust Company ( BB&T ) as additional lender, consisted of a \$20.0 million senior, first-priority secured revolving line of credit maturing on November 12, 2016, a \$2.6 million term loan maturing on November 12, 2016, and a \$25.0 million, 7 year amortizing term loan maturing on June 30, 2020.

On November 3, 2015, we entered into an amendment to our credit facility with our lenders to 1) increase the size of the revolving loan to \$40 million from \$20 million, the amount of the availability of which will continue to be subject to our compliance with our financial covenants as amended; 2) extend the maturity date of the entire credit facility to June 30, 2020 from November 12, 2016, including the revolving loan and the \$2.6 million term loan; 3) add an accordion provision permitting us to request an increase in the revolving loan by up to an additional \$20 million, subject to lender s participation; and 4) reduce our financial covenant of maximum debt to capitalization ratio at the end of any fiscal quarter to 0.25 from 0.30.

On February 23, 2016, the lenders under our credit agreement provided a waiver of any event of default under our credit agreement arising from the execution of the Merger Agreement (but not the consummation of the Merger) with Southern Company.

The credit facility contains three basic financial covenants. First, under the credit agreement, if cash on hand does not exceed funded indebtedness by at least \$5.0 million, then 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 consolidated Earnings before Interest, Taxes, Depreciation and Amortization ( EBITDA ) plus our lease expense minus our taxes based on income and payable in cash, divided by the sum of our consolidated interest charges plus our lease expenses plus our scheduled principal payments and dividends, computed over the previous period. Prior to the fiscal quarter ended June 30, 2015, the fixed charge coverage ratio was based on our financial results for the third quarter 2014 and subsequent fiscal quarters. Commencing with the fiscal quarter ended June 30, 2015 and continuing thereafter, the fixed charge coverage ratio is based on our financial results for the previous four fiscal quarters on a rolling basis. Second, we are required to maintain a minimum consolidated net worth, computed on a quarterly basis, of not less than the sum of \$142.1 million, plus an amount equal to 50% of our net income each fiscal year commencing with the year ending December 31, 2014, with no reduction for any net loss in any fiscal year, plus 90% of any equity we raise through the sale of equity interests, less the amount of any non-cash charges or losses. Under our third financial covenant, the ratio of our funded indebtedness to our capitalization, computed as funded indebtedness divided by the sum of funded indebtedness plus stockholders equity, cannot exceed 30%. As of December 31, 2015, we were in compliance with these financial covenants.

We have used, and intend to continue to use, the proceeds available under the credit facility to support our growth and future investments in working capital, additional UtilityServices equipment, Company-owned distributed generation projects, other capital expenditures, acquisitions and general corporate purposes.

Outstanding balances under the credit facility bear interest, at our discretion, at either the London Interbank Offered Rate ( LIBOR ) for the corresponding deposits of U. S. Dollars plus an applicable margin, which is on a sliding scale ranging from 2.00% to 3.25% based upon our leverage ratio, or at Citibank s alternate base rate plus an applicable margin, on a sliding scale ranging from 0.25% to 1.50% based upon our leverage ratio. Our leverage ratio is the ratio of our funded indebtedness as of a given date, net of our cash on hand in excess of \$5.0 million, to our consolidated EBITDA, as defined in the credit agreement, for the four consecutive fiscal 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%, Citibank s prime commercial lending rate and 30 day LIBOR plus 1.00%.

In July 2013, we entered into two forward-starting interest rate swap contracts based on three-month LIBOR that effectively converted 80% of the outstanding balance of our \$25 million Term Loan to fixed rate debt. We have designated the interest rate swaps as a cash flow hedge of the interest payments due on our floating rate debt. Accordingly, at December 31, 2015, \$12.9 million of our outstanding credit facility debt bears interest at a fixed rate of 3.73% and \$4.9 million of our outstanding credit facility debt bears interest at floating rates as described above. The termination dates of the swap contracts and the maturity date of the \$25 million Term Loan are both June 30, 2020.

The credit facility contains customary terms and conditions for credit facilities of this type, including restrictions or limits on our ability to incur additional indebtedness, create liens, enter into transactions with affiliates, pay dividends on our capital stock or consolidate or merge with other entities. In addition, the credit

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agreement 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.

Our obligations under the credit facility are secured by guarantees and security agreements by each of our active subsidiaries, including PowerSecure, Inc. 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 guarantor.

At December 31, 2015, there was an aggregate balance of \$17.8 million outstanding under the two term loans under our credit facility and no balance was outstanding under the revolving portion of the credit facility. During the fourth quarter of 2015, we borrowed and subsequently repaid \$15.0 million on the revolving portion of our credit facility, partially to finance the working capital requirements related to our large-scale solar energy projects, and we have borrowed additional amounts on the revolving portion of our credit facility in 2016. At December 31, 2015 and 2014, we had \$36.0 million and \$20.0 million, respectively, of available and unused borrowing capacity from our revolving credit facility within the limits of our financial covenants. As a result of borrowings from our revolving credit facility during the first quarter 2016 through the date of this report, at March 14, 2016, an aggregate balance of \$25.0 million was outstanding, and there was approximately \$11.0 million of available and unused borrowing capacity within the limits of our financial covenants, under our revolving credit facility. The availability of this capacity under our credit facility includes restrictions on the use of proceeds, and is dependent upon our ability to satisfy certain financial and operating covenants including financial ratios, as discussed above.

*Acquisition Term Notes* We financed a portion of the 2015 ESCO Energy Services Company acquisition with two unsecured promissory notes payable to the seller in the aggregate amount of \$0.8 million. The first acquisition term note in the principal amount of \$685 thousand is payable in four equal quarterly installments, plus interest at 5%, during 2016. The second acquisition term note in the principal amount of \$150 thousand is payable on December 1, 2017.

The following table summarizes the balances outstanding on our long-term debt at December 31, 2015 and December 31, 2014:

|  | <b>December 31,<br/>2015</b> | <b>December 31,<br/>2014</b> |
|--|------------------------------|------------------------------|
| Revolving line of credit, maturing June 30, 2020   | \$                           | \$                           |
| Term loan, principal of \$0.04 million plus interest payable quarterly at variable rates, maturing June 30, 2020 | 1,760                        | 1,920                        |
| Term loan, principal of \$0.9 million plus interest payable quarterly at variable rates, maturing June 30, 2020  | 16,072                       | 19,643                       |
| Acquisition term notes payable   | 835                          |                              |
| <b>Total debt</b>  | <b>18,667</b>                | <b>21,563</b>                |
| Less: Unamortized debt issuance costs, term loans  | (64)                         | (102)                        |

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|  |           |           |
|--|-----------|-----------|
| Total debt, net of term loan debt issuance costs | 18,603    | 21,461    |
| Less: Current portion                            | (4,416)   | (3,731)   |
| Long-term debt, net of current portion           | \$ 14,187 | \$ 17,730 |

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Scheduled annual principal payments on our outstanding debt obligations at December 31, 2015 are as follows:

| Scheduled Principal Payments for<br>the Year Ending December 31: | Revolving<br>Line of<br>Credit | \$25.0 Million<br>Term<br>Loan | \$2.6 Million<br>Term<br>Loan | Acquisition<br>Term Notes | Total<br>Principal<br>Payments |
|--|--------------------------------|--------------------------------|-------------------------------|---------------------------|--------------------------------|
| 2016   | \$                             | \$ 3,571                       | \$ 160                        | \$ 685                    | \$ 4,416                       |
| 2017   |                                | 3,571                          | 160                           | 150                       | 3,881                          |
| 2018   |                                | 3,572                          | 160                           |                           | 3,732                          |
| 2019   |                                | 3,572                          | 160                           |                           | 3,732                          |
| 2020   |                                | 1,786                          | 1,120                         |                           | 2,906                          |
| Total scheduled principal payments                               | \$                             | \$ 16,072                      | \$ 1,760                      | \$ 835                    | \$ 18,667                      |

*Capital Lease Obligation.* We had a capital lease with SunTrust Equipment Finance and Leasing (as lessor) 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 repaid under the terms of the lease with monthly principal and interest payments of \$0.1 million over a period of 84 months. At the expiration of the term of the lease in December 2015, we exercised our option to purchase the equipment for \$1 dollar. The lease was guaranteed by us under an equipment lease guaranty. The lease and the lease guaranty constituted permitted indebtedness under our credit agreement.

Proceeds of the lease financing were used to finance capital investments in equipment for our recurring revenue distributed generation projects. We accounted for the lease financing as a capital lease in our consolidated financial statements. The balances of our remaining capital lease obligation was \$0 and \$1.0 million at December 31, 2015 and 2014, respectively.

*Preferred Stock Redemption.* The terms of our Series B preferred stock required us to redeem all shares of our Series B preferred stock that remained outstanding on December 9, 2004 at a redemption price equal to the liquidation preference of \$1 thousand per share plus accumulated and unpaid dividends. Our remaining redemption obligation at December 31, 2014, to holders of outstanding shares of Series B preferred stock that have not been redeemed, is \$0.1 million.

**Contractual Obligations and Commercial Commitments**

We incur various contractual obligations and commercial commitments in our normal course of business, reflected in the table below including:

we lease certain office space, operating facilities and equipment under long-term lease agreements;

to the extent we borrow under the revolving portion of our credit facility, we are obligated to make future payments under that facility;



we make repayments on two terms loans under our credit facility;

we have an obligation to make installment payments on our PowerLine acquisition;

we have contingent earn-out payments potentially due on our recent acquisition of the retail energy services operations from Apex;

we have restructuring and cost reduction obligations; and

we have a deferred compensation obligation.

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In addition, at December 31, 2015, we had a liability for unrecognized tax benefits and related interest and penalties totaling \$0.4 million. We do not expect a significant payment related to these obligations within the next year and we are unable to make a reasonably reliable estimate if and when cash settlement with a taxing authority would occur. Accordingly, the information in the table below, which is as of December 31, 2015, does not include the liability for unrecognized tax benefits (dollars in thousands):

| <b>Contractual Obligations</b>               | <b>Total</b>    | <b>Payments Due by Period</b> |                    |                    |                              |
|--|-----------------|-------------------------------|--------------------|--------------------|------------------------------|
|  |                 | <b>Less than<br/>1 Year</b>   | <b>1 - 3 Years</b> | <b>4 - 5 Years</b> | <b>More than<br/>5 Years</b> |
| Revolving portion of credit facility (1)     | \$              | \$                            | \$                 | \$                 | \$                           |
| Term loans (2)                               | 19,949          | 4,905                         | 8,218              | 6,826              |                              |
| Operating leases                             | 19,820          | 6,300                         | 8,668              | 4,400              | 452                          |
| Deferred compensation (3)                    | 3,137           | 3,137                         |                    |                    |                              |
| Installment payments due on acquisition      | 220             |                               | 220                |                    |                              |
| Earnout payments due on acquisitions (4)     | 1,240           |                               | 1,240              |                    |                              |
| Series B preferred stock                     | 104             | 104                           |                    |                    |                              |
| Restructuring and cost reduction obligations | 585             | 585                           |                    |                    |                              |
| <b>Total</b>                                 | <b>\$45,055</b> | <b>\$ 15,031</b>              | <b>\$ 18,346</b>   | <b>\$ 11,226</b>   | <b>\$ 452</b>                |

- (1) Total repayments are based upon borrowings outstanding as of December 31, 2015, not actual or projected borrowings after such date. Repayments do not include interest that may become due and payable in any future period.
- (2) Repayments amounts include interest on the term loans at the interest rate in effect as of December 31, 2015.
- (3) Total amount represents our expected obligation on the deferred compensation arrangement and does not include the value of the restricted annuity contract, or interest earnings thereon, that we purchased to fund our obligation.
- (4) Total amount represents the undiscounted probability-weighted estimate of the earnout payments due. Actual total payment amount may exceed the estimated amount, depending on the achievement of certain backlog or gross profit targets of the acquired businesses.

**Performance Bonds and Letters of Credit**

In the ordinary course of business, we are required by certain customers to post surety or performance bonds or letters of credit in connection with services that we provide to them. These bonds and letters of credit provide a guarantee to the customer that we will perform under the terms of a contract and that we will pay subcontractors and vendors. If we fail to perform under a contract or to pay subcontractors and vendors, the customer may demand that the surety, in the case of a performance bond, or our lenders, in the case of a letter of credit, make payments or provide services under the bond. We must reimburse the surety or our lenders for any expenses or outlays they incur. We have not been required to make any reimbursements to our sureties for bond-related costs, and we do not currently expect that we will have to fund significant claims under our surety arrangements in the foreseeable future. As of December 31, 2015, we had approximately \$450.7 million in surety bonds outstanding and no letters of credit outstanding. Based upon the current status of our contracts and projects, we estimate our remaining exposure on our outstanding surety bonds was approximately \$196.1 million at December 31, 2015.

**Off-Balance Sheet Arrangements**

During 2015, we did not engage in any material off-balance sheet activities or have any relationships or arrangements with unconsolidated entities established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes and we did not guaranty any obligations of unconsolidated entities or have any commitment or intent to provide additional funding to any such entities.

***Liquidity***

At December 31, 2015, we had \$18.4 million in cash and cash equivalents, total working capital of \$75.9 million, and approximately \$36.0 million available for borrowing under the revolving portion of our credit facility

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within the limits of our financial covenants. As a result of borrowings from our revolving credit facility during the first quarter 2016 through the date of this report, at March 14, 2016, an aggregate balance of \$25.0 million was outstanding, and there was approximately \$11.0 million of available and unused borrowing capacity within the limits of our financial covenants under our revolving credit facility. Based upon our plans and assumptions as of the date of this report, we believe that our capital resources, including our cash and cash equivalents, amounts available under our credit facility, along with funds expected to be generated from our operations, will be sufficient to meet our anticipated cash needs, including for working capital, capital spending and debt service commitments, for at least the next 12 months. However, any projections of future cash needs and cash flows are subject to substantial risks and uncertainties. See **Cautionary Note Regarding Forward-Looking Statements** above in this report and **Item 1A. Risk Factors** .

The Merger Agreement includes certain restrictions, limitations and prohibitions as to actions we may or may not take in the period prior to completion of the Merger without the prior consent of Southern Company. Among other restrictions, the Merger Agreement limits, beyond previously budgeted and planned amounts and allowed exceptions, our total capital spending, limits the extent to which we can obtain financing through long-term debt and equity, and prohibits the payment of cash dividends. At this time, as a result of the Merger, we not expect a significant impact on our cash requirements and sources of liquidity.

Although we believe that we have sufficient capital to fund our activities and commitments for at least the next 12 months, our future cash resources and capital requirements may vary materially from those now planned. Our ability to meet our capital needs in the future will depend on many factors, including a reduction in revenues if the demand for our products and services decreases, the timing of sales, the mix of products and services and other factors affecting our gross margins, the amount of recurring revenue projects in which we invest, our ability to meet our financial covenants under our credit facility, unanticipated events over which we have no control increasing our operating costs or reducing our revenues beyond our current expectations, and other factors listed above under

**Uncertainties, Trends and Risks that can cause Fluctuations in our Operating Results** above. For these reasons, we cannot provide any assurance that our actual cash requirements will not be greater than we currently expect or that these sources of liquidity will be available when needed.

During 2015, our working capital balances, including our cash and cash equivalents, have been affected by our progress towards completion of two utility-scale Solar Energy projects that we were awarded in July 2014. Because the solar panels (which we acquire from a third-party supplier) are a material component of the project costs, there are periods when our purchase obligations are due in advance of progress payments from our customer. The timing of cash payments to our panel supplier and cash receipts from our customer have affected the balances of our cash and cash equivalents, accounts receivable, inventory, accounts payable and accrued expenses. We expect similar effects during 2016 as we move further towards completion of these utility-scale Solar Energy projects, and the effects on our cash resources may be material.

We also continually evaluate opportunities to expand our current or to develop new products, services, technology and businesses that could increase our capital needs. In addition, from time to time we consider the acquisition of, or the investment in, complementary businesses, products, services and technology that might affect our liquidity requirements. We may seek to raise any needed or desired additional capital from the proceeds of public or private equity or debt offerings at the parent level or at the subsidiary level or both, from asset or business sales, from traditional credit financings or from other financing sources. Furthermore, we continually evaluate opportunities to improve our credit facilities, through increased credit availability, lower debt costs or other more favorable terms. However, our ability to obtain additional capital or replace or improve our credit facilities when needed or desired will depend on many factors, including general economic and market conditions, our operating performance and investor and lender sentiment, and thus cannot be assured. In addition, depending on how it is structured, a financing could

require the consent of our current lending group. Even if we are able to raise additional capital, the terms of any financings could be adverse to the interests of our stockholders. For example, the terms of a debt financing could restrict our ability to operate our business or to expand our operations, while the terms of an equity financing, involving the issuance of capital stock or of securities convertible into capital stock, could dilute the percentage ownership interests of our stockholders, and the new capital stock or other new securities could have rights, preferences or privileges senior to those of our current stockholders.

Accordingly, we cannot provide any assurance that sufficient additional funds will be available to us if needed or desired or that, if available, such funds can be obtained on terms favorable to us and our stockholders and acceptable to those parties who must consent to the financing. Our inability to obtain sufficient additional capital on a timely basis on favorable terms when needed or desired could have a material adverse effect on our business, financial condition and results of operations.

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**Critical Accounting Policies**

Management's discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates, judgments 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. On an on-going basis, we evaluate our estimates, including those related to revenue recognition and percentage of completion, fixed price contracts, product returns, warranty obligations, bad debt, inventories, cancellations costs associated with long term commitments, incentive compensation, investments, intangible assets, assets subject to disposal, income taxes, restructuring, service contracts, contingencies and litigation. We base our estimates and judgments on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making estimates and judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Estimates, by their nature, are based on judgment and available information and, in some cases, could change from period to period. Therefore, actual results could differ from those estimates, and those differences could have a material impact on our financial condition and results of operations.

We have identified the accounting principles which we believe are most critical to understanding our reported financial results by considering accounting policies that involve the most complex or subjective decisions or assessments. These accounting policies described below include:

revenue recognition;

allowance for doubtful accounts;

inventory valuation reserve;

warranty reserve;

impairment of goodwill and long-lived assets;

deferred tax valuation allowance;

uncertain tax positions;

costs of exit or disposal activities and similar nonrecurring charges;

stock-based compensation; and

derivative financial instruments.

Further information about our significant accounting policies is included in Note 3 of the notes to our consolidated financial statements beginning on page F-1 of this report.

*Revenue Recognition.* For our turn-key project-based revenues, we recognize revenue and profit as work progresses using the percentage-of-completion method, which relies on various estimates. These turn-key Distributed Generation, Solar Energy, Utility Infrastructure, and Energy Efficiency Services projects are nearly always fixed-price contracts.

In applying the percentage-of-completion method to our Distributed Generation and Solar Energy 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 the costs incurred and the value added to the overall 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 turn-key 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 project, and this determination 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.

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In applying the percentage-of-completion method to Distributed Generation projects that specifically involve data center infrastructure construction, Utility Infrastructure turn-key projects and our Energy Efficiency Services 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.

In all cases where we utilize the percentage-of-completion method, 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 scope, 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 as described above, recognized revenues and profits are subject to revision as a project progresses to completion. Revisions in profit estimates are recorded to income in the period in which the facts that give rise to the revision become known. In the event we are 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 require us to adjust our estimated revenues or costs for a series of similar construction projects, or on very large projects, the effect on current period earnings would more likely be significant. In addition, certain contracts contain cancellation provisions permitting the customer to cancel the contract prior to completion of a project. Such cancellation provisions generally require the customer to pay/reimburse us for costs we incurred on the project, 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 commercial 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, although in some instances we can be a subcontractor, which occurs most frequently on larger jobs that involve more scope than our products and services, and in other instances we sell through distributors.

Service revenue includes regulatory consulting and rate design services, power system engineering services, energy conservation services, compliance 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 turn-key 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 fee based on the number of units of work we complete, an example of which could be the number of utility transmission 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 of these 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 a fee or credit for the value of the electrical capacity provided by the system during peak power demand (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.

*Allowance for Doubtful Accounts.* We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. We assess the customer's ability to pay based on a number of factors, including our past transaction history with the customer and the credit worthiness of

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the customer. Management regularly analyzes accounts receivable and historical bad debts, customer credit-worthiness, customer concentrations, current economic trends, and changes in our customer payment patterns when we evaluate the adequacy of our allowances for doubtful accounts. We estimate the collectability of our accounts receivable and establish necessary reserves on an account-by-account basis. In addition, we also provide for a general reserve for all accounts receivable. If the financial condition of our customers were to deteriorate in the future, resulting in an impairment of their ability to make payments, additional allowances may be required. In addition, since a large portion of our receivables are due from major customers or from customers for whom the project represents a major capital expenditure, significant adverse changes to the financial condition of these customers may result in significant adjustments to our allowance.

*Inventory Valuation Reserve.* We maintain an inventory valuation reserve primarily for raw materials, equipment and supplies and certain work in process inventory items that may be in excess of our needs, obsolete or damaged and requiring repair or re-work. We perform periodic assessments of inventory that includes a review of quantities on hand, component demand requirements, product lifecycle and product development plans, and quality issues. As a result of this assessment, we write-down inventory for estimated losses due to obsolescence, scrap, theft and unmarketability equal to the difference between the cost of the inventory and the estimated market value based on assumptions and estimates concerning future demand, market conditions and similar factors. If actual demand and market conditions are less favorable than those estimated by management, additional inventory write-downs may be required.

*Warranty Reserve.* We provide a standard one year warranty for our Distributed Generation, switchgear, Utility Infrastructure, and Energy Efficiency Services equipment and a 5 to 10 year warranty for our LED lighting-based products. In certain cases, we offer extended warranty terms for those product lines. In addition, we provide longer warranties for our Solar Energy products and services including a warranty period of generally 1 to 5 years for defects in material and workmanship, a warranty period that can extend to 10 to 20 years for declines in power performance, and a warranty period which can extend to 15 to 25 years on the functionality of solar panels which is generally backed by the panel manufacturer. 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.

*Impairment of Goodwill and Long-Lived Assets.* We review our goodwill for impairment annually. We review long-lived assets, such as property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In assessing the recoverability of goodwill and long-lived assets, we use estimates of future cash flows and other factors to determine the fair value of these assets. For goodwill, our impairment evaluation includes a comparison of the carrying value of the reporting unit which carries the goodwill to that reporting unit's fair value. The fair value of each reporting unit is based upon an estimate of the net present value of future cash flows, as well as other valuation techniques. If the reporting unit's estimated fair value exceeds the reporting unit's carrying value, no impairment of goodwill exists. If the fair value of the reporting unit does not exceed its carrying value, then further analysis is required to determine the amount of goodwill impairment, if any. We completed our most recent annual testing of the impairment of goodwill as of October 1, 2015. As a result of the test, we concluded that no impairment of goodwill existed as of October 1, 2015. For long-lived assets, our evaluation includes an analysis of estimated future undiscounted net cash flows expected to be generated by the assets over their estimated useful lives. If the estimated future undiscounted net cash flows are insufficient to recover the carrying value of the assets over their estimated useful lives, we will record an impairment charge in the amount by which the carrying value of the assets exceeds their fair value.

In the event future cash flows are adversely affected by events or circumstances, such as by significant changes in current technologies or significant changes in market conditions in the distributed generation, utility or energy efficiency industries, then future valuations of our goodwill and other intangible assets may result in future

impairment charges, and those charges may be significant.

*Deferred Tax Valuation Allowance.* In assessing the need for a valuation allowance, we consider all positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies, and recent financial performance. Based on our current assessment, we no longer maintain a valuation allowance for our deferred tax assets, which consists primarily of our deferred tax asset for federal and state net operating loss carry-forwards. We expect our provision for income tax expense in future periods to reflect an effective tax rate that will approximate statutory rates.

*Uncertain Tax Positions.* The process of filing federal and state income tax returns requires us, in consultation with our tax advisors, to make judgments regarding how we will apply intricate and often ambiguous laws, regulations, administrative rulings and court precedents. From time to time we undergo audits by federal, state,

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and local taxing authorities, and these judgments may be questioned or disallowed in total or in part. As a result, when determining the accounting entries necessary to accurately reflect income taxes currently payable and/or refundable, we must make assumptions regarding the likelihood of success in defending our judgments in the event of audits.

We have recorded a liability for our estimate of taxes, penalties and interest associated with uncertain tax positions. Our estimate is based on assumptions regarding the likelihood of successfully defending this tax position in an audit. We utilize a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement.

Although we believe we have adequately reserved for our uncertain tax positions, no assurance can be given that the final tax outcome of these matters will not be different. We adjust these reserves in light of changing facts and circumstances, such as the closing of a tax audit or the refinement of an estimate. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact the provision for income taxes in the period in which such determination is made. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate, as well as the related net interest.

The application of tax laws and regulations is subject to legal and factual interpretation, judgment and uncertainty. Tax laws and regulations themselves are subject to change as a result of changes in fiscal policy, changes in legislation, the evolution of regulations and court rulings. Therefore, the actual liability for U.S. or foreign taxes may be materially different from our estimates, which could result in the need to record additional tax liabilities or potentially reverse previously recorded tax liabilities.

*Costs of Exit or Disposal Activities and Similar Nonrecurring Charges.* We record a liability for costs associated with exit or disposal activities equal to the fair value of the liability when the liability is incurred. Such costs associated with a discontinued operation are reported in results of discontinued operations. Costs of an exit or disposal activity that do not involve a discontinued operation are included in income from continuing operations before income taxes in our consolidated statements of income.

*Share-Based Compensation.* We measure compensation cost for all stock-based awards at their 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 last sale price of our common stock on the date of the grant. We measure the fair value of restricted stock units based on the underlying number of shares included in the units that are granted and the last sale price of our common stock on the date of the grant. We measure the fair value of performance unit awards based on the underlying number of shares included in the performance units and the last sale price of our common stock on the date of the grant. We measure the fair value of stock options using the Black-Scholes valuation model. These fair values are recognized as compensation expense over the service period, net of estimated forfeitures.

*Derivative Financial Instruments.* Our derivative financial instruments consist solely of two interest rate swap contracts that are used to hedge our interest rate risk on a portion of our variable rate debt. It is our policy to execute such interest rate swaps with creditworthy banks and we do not enter into derivative financial instruments for speculative purposes. We measure our derivative instruments at fair value on a recurring basis using standard pricing models and market-based assumptions for all significant inputs

## **Recent Accounting Pronouncements**

Further information about Recent Accounting Pronouncements and their potential effects on our financial position and results of operations is included in Note 3 of the notes to our consolidated financial statements beginning on page F-1 of this report.

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**Table of Contents****Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

We are exposed to certain financial market risks arising from transactions we enter into in the ordinary course of business. These market risks include, but are not limited to, fluctuations in interest rates and commodity prices, and, to a lesser extent, fluctuations in currency exchange rates. Any of these market risks may adversely affect our financial condition, results of operations and cash flow.

We employ interest rate swap agreements for the purpose of hedging certain specifically identified interest rates. The use of these financial instruments is intended to mitigate some of the risks associated with fluctuations in interest rates, but does not eliminate such risks. We do not use derivative financial instruments for trading or speculative purposes, and except as indicated in this item we do not use derivative financial instruments to manage or hedge our exposure to interest rate changes, commodity price risks, foreign currency exchange risks or other market risks.

*Interest Rate and Market Risk.* We are exposed to market risk resulting from changes in interest rates. Changes in the interest rates affect the income we receive from our investments of excess cash in short-term interest-bearing marketable securities, because that income is dependent upon the interest rate of the securities held, and the interest expenses we pay on our borrowings under our credit facility, because the interest rate on our borrowings is based on floating interest rates as described in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of this report. Our lease with SunTrust is at a fixed interest rate and thus not impacted by changes in interest rates.

At December 31, 2015, our cash and cash equivalents balance was approximately \$18.4 million, and \$17.8 million was outstanding on two term loans under the credit facility. Our credit facility, which is comprised of a revolving credit line and two term loans, bears interest at a rate based on LIBOR or an alternative base rate based on prevailing interest rates, in each case plus an applicable margin based on our leverage ratio. From time to time we may enter into interest rate swap agreements to reduce our exposure to interest rate fluctuations under the credit facility. In July 2013, we entered into two forward-starting interest rate swap contracts to manage interest rate risk on our floating rate debt. The interest rate swaps effectively converted 80% of our \$25.0 million floating rate term loan to a fixed rate term loan bearing interest at the rate of 3.73%. The notional amount of the interest rate swaps at December 31, 2015 was \$12.9 million.

In accordance with ASC 815, *Derivatives and Hedging*, we have designated the interest rate swaps as cash flow hedges of the interest payments due on that portion of our floating rate debt. Accordingly, the fair value of the interest rate swaps are recorded as an asset (other assets) or as a liability (other long-term liabilities), the effective portion of the change in fair value of the interest rate swaps is recorded in other comprehensive income and the quarterly settlements are recorded as either an addition to or reduction of our interest expense for the period. The remainder of our indebtedness under our credit facility continues to bear interest at variable rates that fluctuate.

Pursuant to the swap contracts, the three-month LIBOR rate on the term loan was swapped for a fixed rate of 1.73%. When added to the term loan's current applicable margin, the interest rate applicable to 80% of the term loan has been effectively fixed at 3.73%, subject only to changes in the applicable margin. Notwithstanding the terms of the swap contracts, we remain fully obligated for all amounts due and payable on the term loan. The initial counterparties to the swap contracts are the financial institutions that are also lenders under our credit facility, but the swap contracts may be assigned to other counterparties. The termination dates of the swap contracts and maturity date of the term loan are both June 30, 2020. We may enter into additional swap transactions in the future from time to time.

Our cash equivalents are invested in a combination of bank deposits, money market or U.S. government mutual funds, short-term time deposits, and government agency and corporate obligations, or similar kinds of instruments, the

income of which generally increases or decreases in proportion to increases or decreases, respectively, in interest rates. While we believe we have our cash and cash equivalents invested in very low risk investments, they are not risk free, as our bank deposits are generally in excess of FDIC insurance limits.

We do not believe that changes in interest rates have had a material impact on us in the past or are likely to have a material impact on us in the foreseeable future. For example, for fiscal 2015, a hypothetical 1% (100 basis points) increase in the interest rate on the variable rate portion of our average outstanding borrowings under our credit facility would have resulted in an increase in our interest expense of approximately \$68 thousand, and an increase in our interest income from the average balance of our interest-bearing cash equivalents of approximately \$40 thousand. Conversely, a hypothetical 1% (100 basis points) decrease in the interest rate on the variable rate

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portion our average outstanding borrowings under our credit facility would have resulted in a decrease in our interest expense of approximately \$68 thousand, and a decrease in our interest income from the average balance of our interest-bearing cash equivalents of approximately \$6 thousand.

*Commodity Price Risk.* From time to time we are subject to market risk from fluctuating commodity prices in certain raw materials we use in our products and from diesel fuel we use to power our generators. To date, we have managed this risk by using alternative raw materials acceptable to our customers or we have been able to pass these cost increases to our customers. While we do not believe that changes in commodity prices have had a material impact on us in the past, commodity price fluctuations could have a material impact on us in the future, depending on the magnitude and timing of such fluctuations. The impact of these fluctuations could result in an increase in our operating costs and expenses and reduction in our gross margins and income due to increases in the price and costs of engines, generators, copper, aluminum, electrical components, labor, electricity, diesel fuel, gasoline, oil and natural gas. Movements in prices of these commodities can materially impact our financial results.

*Foreign Exchange Risk.* Historically, substantially all of our revenues, expenses and capital spending were transacted in U.S. dollars and we faced minimal exposure to adverse movements in foreign currency exchange rates. We recently commenced limited operations in Canada and we now have transactions denominated in Canadian dollars. As a result, fluctuations in exchange rates between U.S. and Canadian currency may adversely affect our expenses and results of operations as well as the value of our assets and liabilities. The potential loss in fair value resulting from a hypothetical 10% increase in the value of the U.S. dollar compared to the Canadian dollar was not material at December 31, 2015. If our international operations expand in the future, then our exposure to foreign currency risks could increase, which could materially affect our financial condition and results of operations. In addition, because our LED lighting operations purchases component parts manufactured in China, then to the extent the U.S. Dollar exchange rate with the Chinese Yuan changes significantly, our business and results of operations could be materially impacted.

## **Item 8. Financial Statements and Supplementary Data**

The consolidated financial statements and related notes thereto and the other information required by this item are set forth commencing on pages F-1 of this Annual Report on Form 10-K.

## **Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure**

None.

## **Item 9A. Controls and Procedures**

### **Evaluation of Disclosure Controls and Procedures**

#### *Fiscal Year Ended December 31, 2015*

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of December 31, 2015, the end of the period covered by this Annual Report on Form 10-K. Based upon this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that, as of December 31,



2015, our disclosure controls and procedures were designed at a reasonable assurance level and were effective at a reasonable assurance level to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

***Fiscal Years Ended December 31, 2012, 2013 and 2014***

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, had previously evaluated the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of December 31, 2012, December 31, 2013 and December 31, 2014. Based on these evaluations, our Chief Executive Officer and our Chief Financial Officer concluded that, as of as of December 31, 2012, December 31, 2013 and December 31, 2014, our disclosure controls and procedures were designed at a reasonable assurance level and were effective at a reasonable assurance level to provide reasonable assurance that

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information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information was accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Our management has subsequently concluded, due to a material weakness in our internal control over financial reporting in prior years that we identified in 2015 as disclosed below, that our disclosure controls and procedures were not effective as of December 31, 2012, December 31, 2013 and December 31, 2014. In light of this material weakness in internal control over financial reporting in prior fiscal years discussed below in this item, we completed substantive actions to remediate this material weakness in internal control and procedures to improve our disclosure process, prior to December 31, 2015.

## **Changes in Internal Control over Financial Reporting**

We regularly review our system of internal control over financial reporting and make changes to our processes and systems to improve controls and increase efficiency, while ensuring that we maintain an effective internal control environment. Changes may include such activities as implementing new, more efficient systems, consolidating activities and migrating processes.

During 2015, we identified a deficiency, which we recently concluded was a material weakness, in our controls for identifying operating and reportable segments. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

The material weakness in internal control over financial reporting resulted from the lack of controls which allowed for the misinterpretation and historical misapplication of ASC 280, Segment Reporting, in regards to our identification of operating and reportable segments. In 2012 and 2013, we did not have adequate controls in place to properly identify operating segments or reportable segments, and therefore reported only a single reportable segment instead of reporting multiple reportable segments for our continuing operations for the fiscal years ended December 31, 2012 and 2013. During 2014, we began to implement changes in our processes for budgeting and performance evaluation, and, consequently, began improving our controls over the identification of operating and reportable segments. We completed remediation of this control deficiency during 2015, and in the Annual Report on Form 10-K for the fiscal year ended December 31, 2015, we have properly reported four reportable segments, and restated segment information for the prior years included in this report consistent therewith.

Remediation of the material weakness occurred as we standardized our budgeting and performance evaluation processes, resulting in a more clearly defined set of disaggregated results upon which our Chief Executive Officer, who is our Chief Operating Decision Maker, relies in making performance assessment and resource allocation decisions. The changes in the budgeting and performance evaluation processes were accompanied by more robust analyses of operating and reportable segments.

There were no changes in our internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, that occurred during the quarter ended December 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **Management's Report on Internal Control over Financial Reporting**

*Fiscal Year Ended December 31, 2015*

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Management conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2015, based on the framework in *Internal Control Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO Framework). Based on this evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2015. Management reviewed the results of its assessment with our Audit Committee. The effectiveness of our internal control over financial reporting as of December 31, 2015 has been audited by Hein & Associates LLP (Hein), an independent registered public accounting firm, as stated in its report which is included below in this item.

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**Table of Contents*****Fiscal Years Ended December 31, 2012, 2013 and 2014***

As discussed above in this item, our management conducted evaluations of the effectiveness of our internal control over financial reporting as of December 31, 2012, December 31, 2013 and December 31, 2014, based on the 1992 COSO Framework for our evaluations as of December 31, 2012 and 2013, and based on the 2013 COSO Framework for our evaluation as of December 31, 2014 (the COSO Framework Then In Effect ). Based on these evaluations, management had previously concluded that our internal control over financial reporting was effective as of December 31, 2012, December 31, 2013 and December 31, 2014. Management has subsequently determined that a deficiency in internal control over financial reporting existed relating to the misinterpretation and historical misapplication of ASC 280, Segment Reporting, in regards to our identification of operating and reportable segments, and has further concluded that such deficiency represented a material weakness as of December 31, 2012, December 31, 2013 and December 31, 2014. As a result, management has revised its assessments, as discussed above, to conclude that the Company's internal control over financial reporting was not effective as of December 31, 2012, December 31, 2013 and December 31, 2014.

In its prior reports dated March 7, 2012, March 10, 2014 and March 4, 2015 ( Prior Hein Internal Control Reports ), Hein & Associates LLP ( Hein ), an independent registered public accounting firm, expressed unqualified opinions that we maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, December 31, 2013 and December 31, 2014, respectively, based on the COSO Framework Then In Effect. As discussed above, management has revised its assessments to conclude that the Company's internal control over financial reporting was not effective as of December 31, 2012, December 31, 2013 and December 31, 2014. Accordingly, Hein's current opinion on the effectiveness of our internal control over financial reporting as of December 31, 2012, December 31, 2013 and December 31, 2014 is different from that expressed in the Prior Hein Internal Control Reports, as discussed in its opinion on the effectiveness of our internal control over financial reporting as of December 31, 2015, included below in this item. In Hein's opinion, because of the effect of the material weakness described above with respect to the misinterpretation and historical misapplication of ASC 280, Segment Reporting, in regards to our identification of operating and reportable segments, we did not maintain effective internal control over financial reporting as of December 31, 2012, December 31, 2013 and December 31, 2014, respectively, based on the COSO Framework Then In Effect.

**Limitations in Controls and Procedures**

Our controls and procedures were designed at a reasonable assurance level. In designing and evaluating our controls and procedures, management recognizes that, because of inherent limitations, any system of controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired objectives of the control system. In addition, the design of a control system must reflect the fact that there are resource constraints, and management must apply its judgment in evaluating the benefits of possible controls relative to their costs. Further, no evaluation of controls and procedures can provide absolute assurance that all errors, control issues and instances of fraud will be prevented or detected. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls and procedures is also based in part on certain assumptions regarding the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders

PowerSecure International, Inc.

We have audited PowerSecure International, Inc.'s (the Company) internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying *Management's Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, PowerSecure International, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the criteria established in *Internal Control Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of PowerSecure International, Inc. and our report dated March 14, 2016 expressed an unqualified opinion.

We have previously issued reports expressing the opinion that PowerSecure International, Inc. had maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, 2013 and 2014. As

described in Management's Report on Internal Control over Financial Reporting, management has determined that a material weakness in internal control over financial reporting related to the identification of operating and reporting segments existed as of December 31, 2012, 2013 and 2014. Because of the effect of this material weakness on the achievement of the objectives of the control criteria, PowerSecure International, Inc. did not maintain effective internal control over financial reporting as of December 31, 2012, 2013 and 2014. This material weakness was considered in determining the nature, timing and extent of audit tests applied in our audits of the accompanying financial statements, and this report does not affect our report dated March 14, 2016 on those financial statements.

/S/ HEIN & ASSOCIATES LLP

Hein & Associates LLP

Denver, Colorado

March 14, 2016

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**Item 9B. Other Information**

None.

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**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance**

The information required by this item concerning our executive officers is set forth under the heading "Executive Officers of the Registrant" in Item 1 of Part I of this report.

The remainder of the information required by this item will be included in our Proxy Statement for our 2016 Annual Meeting of Stockholders, which we will file with the SEC not later than 120 days after the end of our fiscal year ended December 31, 2015, and is incorporated herein by reference.

**Item 11. Executive Compensation**

The information required by this item will be included in our Proxy Statement for our 2016 Annual Meeting of Stockholders, which we will file with the SEC not later than 120 days after the end of our fiscal year ended December 31, 2015, and is incorporated herein by reference.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required by this item will be included in our Proxy Statement for our 2016 Annual Meeting of Stockholders, which we will file with the SEC not later than 120 days after the end of our fiscal year ended December 31, 2015, and is incorporated herein by reference.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required by this item will be included in our Proxy Statement for our 2016 Annual Meeting of Stockholders, which we will file with the SEC not later than 120 days after the end of our fiscal year ended December 31, 2015, and is incorporated herein by reference.

**Item 14. Principal Accounting Fees and Services**

The information required by this item will be included in our Proxy Statement for our 2016 Annual Meeting of Stockholders, which we will file with the SEC not later than 120 days after the end of our fiscal year ended December 31, 2015, and is incorporated herein by reference.



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**PART IV**

**Item 15. Exhibits, Financial Statement Schedules**

**(a) Documents Filed**

We have filed the following financial statements, schedules and exhibits as part of this Annual Report on Form 10-K:

1. *Financial Statements*

The following consolidated financial statements of PowerSecure International, Inc. are included commencing on page F-1 of this report:

Report of Independent Registered Public Accounting Firm  
Consolidated Balance Sheets as of December 31, 2015 and 2014  
Consolidated Statements of Income for the Years Ended December 31, 2015, 2014 and 2013  
Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2015, 2014 and 2013  
Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2015, 2014 and 2013  
Consolidated Statements of Cash Flows for the Years Ended December 31, 2015, 2014 and 2013  
Notes to Consolidated Financial Statements

2. *Financial Statement Schedules*

The following financial statement schedule is filed as a part of this report:

Schedule II - Valuation and Qualifying Accounts

All other financial statement schedules have been omitted because they are not applicable or required or because the required information is included in our consolidated financial statements or the notes thereto.

3. *Exhibits*

The exhibits required by this item are listed on the Exhibit Index immediately following the signature page of this report.

**(b) Item 601 Exhibits**

The exhibits required by this item are listed on the accompanying Exhibit Index immediately following the signature page of this report.

**(c) Financial Statement Schedules**

The financial statement schedules required by this item are listed under Item 15(a)(2) of this report, above.



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POWERSECURE INTERNATIONAL, INC. AND SUBSIDIARIES

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| <u>Consolidated Statements of Operations for the Years Ended December 31, 2015, 2014 and 2013</u>                  | F-5         |
| <u>Consolidated Statements of Comprehensive Income (Loss) for the Years Ended December 31, 2015, 2014 and 2013</u> | F-6         |
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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors and Stockholders

PowerSecure International, Inc.

We have audited the accompanying consolidated balance sheets of PowerSecure International, Inc. and subsidiaries (the Company) as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2015. Our audits also included the financial statement schedule of PowerSecure International, Inc. listed in Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PowerSecure International, Inc. and subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), PowerSecure International, Inc.'s and subsidiaries' internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 14, 2016 expressed an unqualified opinion on the effectiveness of PowerSecure International, Inc.'s internal control over financial reporting.

/s/ HEIN & ASSOCIATES LLP

Hein & Associates LLP

Denver, Colorado  
March 14, 2016

**Table of Contents****POWERSECURE INTERNATIONAL, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(in thousands, except share data)**

|   | <b>December 31,</b> |                   |
|---|---------------------|-------------------|
|   | <b>2015</b>         | <b>2014</b>       |
| <b>Assets</b>   |                     |                   |
| Current Assets:   |                     |                   |
| Cash and cash equivalents   | \$ 18,433           | \$ 33,775         |
| Trade receivables, net of allowance for doubtful accounts of \$502 and \$470, respectively                              | 137,899             | 81,381            |
| Inventories   | 64,062              | 35,144            |
| Income taxes receivable   | 361                 | 382               |
| Deferred tax asset, net   |                     | 2,320             |
| Prepaid expenses and other current assets   | 3,413               | 3,439             |
| <b>Total current assets</b>   | <b>224,168</b>      | <b>156,441</b>    |
| Property, plant and equipment:  |                     |                   |
| Equipment   | 69,484              | 62,231            |
| Furniture and fixtures  | 766                 | 617               |
| Land, building and improvements   | 8,089               | 7,413             |
| <b>Total property, plant and equipment, at cost</b>   | <b>78,339</b>       | <b>70,261</b>     |
| Less accumulated depreciation and amortization  | 25,730              | 20,392            |
| <b>Property, plant and equipment, net</b>   | <b>52,609</b>       | <b>49,869</b>     |
| Other noncurrent assets:  |                     |                   |
| Goodwill  | 41,582              | 40,210            |
| Restricted annuity contract   | 3,137               | 3,137             |
| Intangible assets and capitalized software costs, net of accumulated amortization of \$10,903 and \$7,374, respectively | 11,830              | 13,642            |
| Other assets  | 2,489               | 1,816             |
| <b>Total other noncurrent assets</b>  | <b>59,038</b>       | <b>58,805</b>     |
| <b>Total Assets</b>   | <b>\$ 335,815</b>   | <b>\$ 265,115</b> |

*See accompanying notes to consolidated financial statements.*

**Table of Contents****POWERSECURE INTERNATIONAL, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(in thousands, except share data)

|  | <b>December 31,</b> |                   |
|--|---------------------|-------------------|
|  | <b>2015</b>         | <b>2014</b>       |
| <b>Liabilities and Stockholders Equity</b>   |                     |                   |
| Current liabilities:   |                     |                   |
| Accounts payable   | \$ 88,370           | \$ 39,699         |
| Accrued and other liabilities  | 54,917              | 41,113            |
| Accrued restructuring liabilities  | 585                 | 114               |
| Current portion of long-term debt  | 4,416               | 3,731             |
| Capital lease obligation, all current  |                     | 986               |
| Total current liabilities  | 148,288             | 85,643            |
| Long-term liabilities:   |                     |                   |
| Revolving line of credit   |                     |                   |
| Long-term debt, net of current portion   | 14,187              | 17,730            |
| Deferred tax liability, net  | 2,911               | 1,460             |
| Other long-term liabilities  | 4,941               | 3,913             |
| Total long-term liabilities  | 22,039              | 23,103            |
| Commitments and contingencies (Note 11)  |                     |                   |
| 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; 50,000,000 shares authorized; 22,501,173 and 22,369,487 shares issued and outstanding, respectively | 225                 | 224               |
| Additional paid-in-capital   | 164,429             | 161,163           |
| Retained earnings (deficit)  | 898                 | (4,941)           |
| Accumulated other comprehensive income (loss)  | (64)                | (77)              |
| Total stockholders equity  | 165,488             | 156,369           |
| <b>Total Liabilities and Stockholders Equity</b>   | <b>\$ 335,815</b>   | <b>\$ 265,115</b> |

*See accompanying notes to consolidated financial statements.*



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

|  | <b>Year Ended December 31,</b> |                   |                 |
|--|--------------------------------|-------------------|-----------------|
|  | <b>2015</b>                    | <b>2014</b>       | <b>2013</b>     |
| Revenues   | \$ 443,701                     | \$ 256,657        | \$ 270,234      |
| Cost of sales (excluding depreciation and amortization)                      | 342,529                        | 192,088           | 198,651         |
| <b>Gross profit</b>  | <b>101,172</b>                 | <b>64,569</b>     | <b>71,583</b>   |
| Operating expenses:  |                                |                   |                 |
| General and administrative   | 66,801                         | 56,419            | 47,071          |
| Selling, marketing and service   | 11,523                         | 8,890             | 7,381           |
| Depreciation and amortization  | 10,525                         | 8,902             | 7,287           |
| Restructuring charges  | 1,291                          | 427               | 1,205           |
| <b>Total operating expenses</b>  | <b>90,140</b>                  | <b>74,638</b>     | <b>62,944</b>   |
| Operating income (loss)  | 11,032                         | (10,069)          | 8,639           |
| Other income (expense)   | 6                              | 215               | 81              |
| Interest expense   | (1,141)                        | (1,236)           | (817)           |
| Income (loss) before income taxes  | 9,897                          | (11,090)          | 7,903           |
| Income tax expense (benefit)   | 4,058                          | (4,098)           | 3,672           |
| <b>Net income (loss)</b>   | <b>5,839</b>                   | <b>(6,992)</b>    | <b>4,231</b>    |
| Net loss attributable to non-controlling interest                            |                                |                   | 181             |
| <b>Net income (loss) attributable to PowerSecure International, Inc.</b>     | <b>\$ 5,839</b>                | <b>\$ (6,992)</b> | <b>\$ 4,412</b> |
| Amounts attributable to PowerSecure International, Inc. common stockholders: |                                |                   |                 |
| Earnings (loss) per share:   |                                |                   |                 |
| Basic  | \$ 0.26                        | \$ (0.31)         | \$ 0.22         |
| Diluted  | \$ 0.26                        | \$ (0.31)         | \$ 0.22         |
| Weighted average common shares outstanding during the period:                |                                |                   |                 |
| Basic  | 22,449                         | 22,263            | 19,837          |
| Diluted  | 22,572                         | 22,263            | 20,160          |



*See accompanying notes to consolidated financial statements.*

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**POWERSECURE INTERNATIONAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

(in thousands)

|  | <b>Year Ended December 31,</b> |             |             |
|--|--------------------------------|-------------|-------------|
|  | <b>2015</b>                    | <b>2014</b> | <b>2013</b> |
| Net income (loss)  | \$ 5,839                       | \$ (6,992)  | \$ 4,231    |
| Other comprehensive income (loss), net of tax:   |                                |             |             |
| Unrealized foreign currency translation adjustment, net of tax benefit of \$0, \$0 and \$0, respectively | (9)                            |             |             |
| Cash flow hedge:   |                                |             |             |
| Change in unrealized gain (loss)   | (105)                          | (157)       | (123)       |
| Reclassification adjustment for net (gains) losses included in net income (loss)                         | 127                            | 164         | 39          |
| Other comprehensive income (loss) from cash flow hedge, net of tax                                       | 22                             | 7           | (84)        |
| Total other comprehensive income (loss), net of tax  | 13                             | 7           | (84)        |
| Comprehensive loss attributable to non-controlling interest  |                                |             | 181         |
| Comprehensive income (loss) attributable to PowerSecure International, Inc.                              | \$ 5,852                       | \$ (6,985)  | \$ 4,328    |

*See accompanying notes to consolidated financial statements.*

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**POWERSECURE INTERNATIONAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013**

(in thousands, except per share data)

|   | Common Stock |        | Additional<br>Paid-In<br>Capital | Retained<br>Earnings<br>(Deficit) | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) |        | Non-<br>Controlling<br>Interest | Total |
|---|--------------|--------|----------------------------------|-----------------------------------|---|--------|---------------------------------|-------|
|   | Shares       | Value  |                                  |                                   |   |        |                                 |       |
| <b>Balance at January 1, 2013</b>                       | 18,203       | \$ 182 | 112,738                          | \$ (2,361)                        | \$  | \$ 440 | \$ 110,999                      |       |
| Net income  |              |        |                                  | 4,412                             |   |        | 4,412                           |       |
| Other comprehensive income<br>(loss)                    |              |        |                                  |                                   | (84)  |        | (84)                            |       |
| Non-controlling interest:                               |              |        |                                  |                                   |   |        |                                 |       |
| Share of income (loss)                                  |              |        |                                  |                                   |   | (181)  | (181)                           |       |
| Acquisition of non-controlling<br>interest              | 209          | 2      | 104                              |                                   |   | (259)  | (153)                           |       |
| Acquisition of Solais                                   | 675          | 7      | 8,446                            |                                   |   |        | 8,453                           |       |
| Public stock offering                                   | 2,300        | 23     | 34,419                           |                                   |   |        | 34,442                          |       |
| Stock option compensation                               |              |        | 167                              |                                   |   |        | 167                             |       |
| Issuance and amortization of<br>restricted stock awards | 346          | 3      | 433                              |                                   |   |        | 436                             |       |
| Repurchases of common stock                             | (8)          |        | (117)                            |                                   |   |        | (117)                           |       |
| Stock option exercises                                  | 221          | 2      | 1,211                            |                                   |   |        | 1,213                           |       |
| <b>Balance at December 31, 2013</b>                     | 21,946       | 219    | 157,401                          | 2,051                             | (84)  |        | 159,587                         |       |
| Net income (loss)                                       |              |        |                                  | (6,992)                           |   |        | (6,992)                         |       |
| Other comprehensive income<br>(loss)                    |              |        |                                  |                                   | 7   |        | 7                               |       |
| Stock option compensation                               |              |        | 197                              |                                   |   |        | 197                             |       |
| Performance unit compensation                           |              |        | 70                               |                                   |   |        | 70                              |       |
| Issuance and amortization of<br>restricted stock awards | 235          | 2      | 1,846                            |                                   |   |        | 1,848                           |       |
| Repurchases of common stock                             | (56)         |        | (433)                            |                                   |   |        | (433)                           |       |
| Stock option exercises                                  | 244          | 3      | 2,082                            |                                   |   |        | 2,085                           |       |
| <b>Balance at December 31, 2014</b>                     | 22,369       | \$ 224 | \$ 161,163                       | \$ (4,941)                        | \$ (77)   | \$     | \$ 156,369                      |       |
| Net income  |              |        |                                  | 5,839                             |   |        | 5,839                           |       |
| Other comprehensive income<br>(loss)                    |              |        |                                  |                                   | 13  |        | 13                              |       |

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|   |        |        |            |        |         |            |
|---|--------|--------|------------|--------|---------|------------|
| Stock option compensation                               |        |        | 259        |        |         | 259        |
| Performance unit compensation                           |        |        | 236        |        |         | 236        |
| Stock unit compensation                                 |        |        | 88         |        |         | 88         |
| Issuance and amortization of<br>restricted stock awards | 18     |        | 1,976      |        |         | 1,976      |
| Repurchases of common stock                             | (11)   |        | (138)      |        |         | (138)      |
| Stock option exercises                                  | 125    | 1      | 845        |        |         | 846        |
| <b>Balance at December 31, 2015</b>                     | 22,501 | \$ 225 | \$ 164,429 | \$ 898 | \$ (64) | \$ 165,488 |

*See accompanying notes to consolidated financial statements.*

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Table of Contents**POWERSECURE INTERNATIONAL, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(in thousands)**

|  | <b>Year Ended December 31,</b> |             |             |
|--|--------------------------------|-------------|-------------|
|  | <b>2015</b>                    | <b>2014</b> | <b>2013</b> |
| <b>Cash flows from operating activities:</b>   |                                |             |             |
| Net income (loss)  | \$ 5,839                       | \$ (6,992)  | \$ 4,231    |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: |                                |             |             |
| Depreciation and amortization  | 10,525                         | 8,902       | 7,287       |
| Stock compensation expense   | 2,559                          | 2,115       | 603         |
| Loss on asset disposals  | 789                            | 28          | 172         |
| Changes in operating assets and liabilities, net of effect of acquisitions:                        |                                |             |             |
| Trade receivables, net   | (55,482)                       | 8,597       | (25,984)    |
| Inventories  | (28,918)                       | (17,719)    | 4,216       |
| Deferred taxes   | 3,756                          | (4,360)     | 3,292       |
| Other current assets and liabilities   | 126                            | (580)       | (1,336)     |
| Other noncurrent assets and liabilities  | (508)                          | (421)       | (597)       |
| Accounts payable   | 48,004                         | 15,330      | 8,217       |
| Accrued and other liabilities  | 13,553                         | 8,007       | (2,520)     |
| Accrued restructuring liabilities  | 470                            | (851)       | 255         |
| Net cash provided by (used in) operating activities  | 713                            | 12,056      | (2,164)     |
| <b>Cash flows from investing activities:</b>   |                                |             |             |
| Acquisitions, net of cash acquired   | (927)                          | (13,820)    | (14,305)    |
| Purchases of property, plant and equipment   | (9,954)                        | (11,208)    | (9,012)     |
| Additions to intangible rights and software development  | (1,461)                        | (1,623)     | (610)       |
| Proceeds from sale of property, plant and equipment  | 305                            | 469         | 177         |
| Net cash used in investing activities  | (12,037)                       | (26,182)    | (23,750)    |
| <b>Cash flows from financing activities:</b>   |                                |             |             |
| Borrowings (payments) on revolving line of credit, net   |                                |             |             |
| Proceeds from term loan borrowings   |                                |             | 25,000      |
| Proceeds from public stock offering, net   |                                |             | 34,443      |
| Principal payments on term loans   | (3,731)                        | (3,731)     | (1,946)     |
| Payments on capital lease obligations  | (986)                          | (935)       | (886)       |
| Repurchases of common stock  | (138)                          | (433)       | (117)       |
| Proceeds from stock option exercises   | 846                            | 2,085       | 1,213       |
| Net cash provided by (used in) financing activities  | (4,009)                        | (3,014)     | 57,707      |

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|  |           |           |           |
|--|-----------|-----------|-----------|
| Effects of currency exchange rate changes on cash and cash equivalents | (9)       |           |           |
| Net increase (decrease) in cash and cash equivalents                   | (15,342)  | (17,140)  | 31,793    |
| Cash and cash equivalents at beginning of year                         | 33,775    | 50,915    | 19,122    |
| Cash and cash equivalents at end of year                               | \$ 18,433 | \$ 33,775 | \$ 50,915 |

*See accompanying notes to consolidated financial statements.*

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**POWERSECURE INTERNATIONAL, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE**  
**YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013**

**(all amounts 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 products and services to electric utilities, and their large commercial, institutional and industrial customers. On February 24, 2016, we entered into an Agreement and Plan of Merger, which we refer to as the Merger Agreement, with The Southern Company, Inc., or Southern Company. See Note 2 for further information on this merger.

We provide products and services through our four reportable segments: our Distributed Generation segment, our Solar Energy segment, our Utility Infrastructure segment, and our Energy Efficiency segment. These four reportable segments constitute our major product and service offerings, each of which are focused on serving the needs of utilities and their large commercial, institutional and industrial customers to help them generate, deliver, and utilize electricity more reliably and efficiently. Our strategy is focused on growing these four segments, which require unique knowledge and skills that utilize our core competencies, because they address large market opportunities due to their strong customer value propositions. The segments share common or complementary utility relationships and customer types, common sales and overhead resources, and facilities. However, we distinguish our operations among these segments due to their unique products and services, differing economic characteristics, market needs they are addressing, and the distinct technical disciplines and specific capabilities required for us to deliver their products and services, including personnel, technology, engineering, and intellectual capital. We currently operate primarily out of our Wake Forest, North Carolina headquarters office. Our operations also include several satellite offices and manufacturing facilities, the largest of which are in the Raleigh-Durham and Greensboro, North Carolina, Atlanta, Georgia, Bethlehem, Pennsylvania, and Stamford, Connecticut areas. The locations of our sales organization and field employees for our operations are generally in close proximity to the utilities and commercial, industrial, and institutional customers they serve. Our four operating segments are operated through our principal operating wholly-owned subsidiary, PowerSecure, Inc.

See Note 14 for more information concerning our reportable segments.

**Basis of Presentation**

**Organization** The accompanying consolidated financial statements include the accounts of PowerSecure International, Inc. and its subsidiaries, primarily PowerSecure, Inc. and its majority-owned and wholly-owned subsidiaries, UtilityEngineering, Inc., PowerServices, Inc., PowerSecure Lighting, LLC ( PowerSecure Lighting ), Solais Lighting, Inc. ( Solais ), EnergyLite, Inc. ( EnergyLite ), EfficientLights, LLC ( EfficientLights ), Innovative Electronic Solutions Lighting, LLC ( IES ), Reid s Trailer, Inc. d/b/a PowerFab ( PowerFab ), Innovation Energies, LLC, PowerSecure Solar, LLC ( PowerSecure Solar ) and PowerSecure Canada Energy Services, Inc. which are collectively referred to as the Company or PowerSecure or we or us or our . On June 30, 2014, EfficientLights and IES were dissolved and merged into EnergyLite.

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The consolidated financial statements presented reflect entries necessary for the fair presentation of the Consolidated Statements of Operations and Comprehensive Income for the years ended December 31, 2015, 2014 and 2013, Consolidated Balance Sheets as of December 31, 2015 and 2014 and Consolidated Statements of Cash Flows for the years ended December 31, 2015, 2014 and 2013. All entries required for the fair presentation of the financial statements are of a normal recurring nature.



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**Principles of Consolidation** The consolidated financial statements include the accounts of PowerSecure International, Inc. and its subsidiaries after elimination of intercompany accounts and transactions.

**Foreign Currency Translation** The functional currency of PowerSecure's subsidiary in Canada is the local currency. The financial statements of PowerSecure's Canadian subsidiary is translated into the Company's reporting currency, which is the U.S. dollar. The foreign currency translation adjustments are recorded as a separate component of accumulated other comprehensive income (loss). The Company does not have any other foreign subsidiaries.

**Non-controlling Interest** The non-controlling ownership interests in the income or losses of our majority-owned subsidiaries during the year ended December 31, 2013 is included in our consolidated statements of operations as a reduction or addition to net income (loss) to derive income (loss) attributable to PowerSecure International stockholders. Similarly, the non-controlling ownership interest in the undistributed equity of our majority-owned subsidiaries during the year ended December 31, 2013 is shown as a separate component of stockholders' equity in our consolidated statements of stockholders' equity.

Until May 20, 2013, we held a 90% controlling ownership interest in PowerSecure Solar, a distributed solar energy company which we acquired in June 2012. In addition, until May 22, 2013, we also held a 67% controlling ownership interest in IES, an LED lighting company which we acquired in 2010. On May 20, 2013, we acquired the 10% non-controlling ownership interest in PowerSecure Solar in exchange for a cash payment of \$0.2 million. On May 22, 2013, we acquired the 33% non-controlling ownership interest in IES in exchange for 0.2 million shares of our common stock valued at a total of \$2.9 million on the date of acquisition, issued pursuant to our acquisition shelf registration statement on Form S-4. As a result of these non-controlling interest acquisitions, both PowerSecure Solar and IES became wholly-owned subsidiaries and there has been no non-controlling interest in those entities after the acquisition dates. On June 30, 2014, IES was merged into our wholly-owned subsidiary, EnergyLite.

The following is a reconciliation of the amounts attributable to the non-controlling interest in IES and PowerSecure Solar for the year ended December 31, 2013:

|   | <b>Non-controlling Interest<br/>PowerSecure</b> |              |              |
|---|---|--------------|--------------|
|   | <b>IES</b>                                      | <b>Solar</b> | <b>Total</b> |
| Balance, January 1, 2013                | \$ (6)  | \$ 446       | \$ 440       |
| Income (loss)                           | (143)   | (38)         | (181)        |
| Acquisition of non-controlling interest | 149   | (408)        | (259)        |
| Balance, December 31, 2013              | \$  | \$           | \$           |

There are no longer any non-controlling interests after the year ended December 31, 2013.

**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 the 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, among others, 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, deferred tax valuation allowance, purchase price

allocations on business acquisitions, fair value estimates of interest rate swap contracts and any impairment charges on long-lived assets and goodwill.

**Reclassifications** Certain 2014 and 2013 amounts have been reclassified to conform to current year presentation. Such reclassifications had no effect on net income (loss) or stockholders' equity as previously reported.

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**Table of Contents****2. Proposed Merger with Southern Company**

On February 24, 2016, we entered into the Merger Agreement with Southern Company and a wholly-owned subsidiary of Southern Company, which we refer to as the Merger Sub, providing for the merger of the Merger Sub with and into PowerSecure, with PowerSecure surviving as a wholly-owned subsidiary of Southern Company. At the effective time of the merger, subject to receipt of required shareholder and regulatory approvals, and meeting specified customary closing conditions, each share of our common stock will be converted automatically into the right to receive into the right to receive \$18.75 in cash, without interest, less any applicable withholding taxes. The Merger Agreement also provides that, at the effective time of the merger, (i) all outstanding stock options will be deemed to be fully vested and converted into the right to receive a cash payment equal to the excess of the merger consideration over the exercise prices of such stock options, (ii) all outstanding restricted shares and restricted stock units will be deemed to be fully vested and converted into the right to receive the merger consideration, except for certain unvested restricted shares held by our Chief Executive Officer, which will be converted into a stock award relating to shares of Southern Company, and (iii) all performance share units payable in shares of Common Stock will be deemed vested at the target level of achievement and converted into the right to receive the merger consideration. In the Merger Agreement, we agreed to covenants affecting the conduct of our business between the date of the Merger Agreement and the effective date of the merger.

Completion of the merger is subject to various closing conditions, including, among others (i) the approval of the Merger Agreement by the affirmative vote of the holders of a majority of all outstanding shares of our common stock, (ii) the receipt of all regulatory approvals required to consummate the merger, including expiration of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act, as amended (the Hart-Scott-Rodino Act (iii) the absence of any law or injunction, prohibiting the closing of the merger, and (iv) other customary closing conditions, including (a) the accuracy of each party's representations and warranties (subject to customary materiality qualifiers), (b) each party's performance in all material respects with its obligations under the Merger Agreement, and (c) no material adverse effect (as defined in the Merger Agreement) on us having occurred. The merger is not subject to any financing condition.

The Merger Agreement contains customary representations, warranties and covenants by us and Southern, including, among others, covenants by us not to solicit proposals relating to alternative business combinations or, subject to certain exceptions, enter into discussions concerning or provide information in connection with alternative business combination proposals or withdraw or adversely modify the recommendation of our Board in favor of the stockholder approval. In addition, the Merger Agreement contains (i) agreements by us to conduct our business in the ordinary course until the Merger is consummated, to not engage in certain kinds of transactions, to convene and hold a meeting of our stockholders for the purpose of obtaining stockholder approval of the Merger and the Merger Agreement and (ii) agreements by each of the parties to use their reasonable best efforts to obtain all required regulatory approvals.

The Merger Agreement contains certain termination rights, including the right by us to terminate the Merger Agreement if our Board has changed its recommendation in favor of the Merger in connection with a Superior Proposal or Intervening Event as such terms are defined in the Merger Agreement. The Merger Agreement also provides that, upon termination of the Merger Agreement in specified circumstances, we will be required to pay Southern a termination fee of \$12.0 million. In addition, subject to certain exceptions and limitations, either party may terminate the Merger Agreement if the Merger is not consummated by November 30, 2016.

On February 23, 2016, the lenders under our credit facility provided a waiver of any event of default arising from the execution of the Merger Agreement (but not the consummation of the Merger) under credit agreement with our lenders.

### **3. Summary of Significant Accounting Policies and Recent Accounting Standards**

**Revenue Recognition** For our turn-key project-based revenues, we recognize revenue and profit as work progresses using the percentage-of-completion method, which relies on various estimates. These turn-key Distributed Generation, Solar Energy, Utility Infrastructure, and Energy Efficiency Services projects are nearly always fixed-price contracts.

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In applying the percentage-of-completion method to our Distributed Generation and Solar Energy 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 the costs incurred and the value added to the overall 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 turn-key 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 project, and this determination 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 Distributed Generation projects that specifically involve data center infrastructure construction, Utility Infrastructure turn-key projects and our Energy Efficiency Services 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.

In all cases where we utilize the percentage-of-completion method, 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 scope, 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 as described above, recognized revenues and profits are subject to revision as a project progresses to completion. Revisions in profit estimates are recorded to income in the period in which the facts that give rise to the revision become known. In the event we are 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 require us to adjust our estimated revenues or costs for a series of similar construction projects, or on very large projects, the effect on current period earnings would more likely be significant. In addition, certain contracts contain cancellation provisions permitting the customer to cancel the contract prior to completion of a project. Such cancellation provisions generally require the customer to pay/reimburse us for costs we incurred on the project, but may result in an adjustment to profit already recognized in a prior period.

Service revenue includes regulatory consulting and rate design services, power system engineering services, energy conservation services, compliance 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 turn-key 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 fee based on the number of units of work we complete, an example of which could be the number of utility transmission 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 of these cases, we recognize revenue as these services are delivered.

We recognize revenue on non-project-based equipment and product sales when persuasive evidence of a commercial arrangement exists, delivery has occurred and/or services have been rendered, the price is fixed or determinable, and collectability is reasonably assured. Such equipment and product sales are generally made directly to end users of the product, who are responsible for payment for the product, although in some instances we can be a subcontractor, which occurs most frequently on larger jobs that involve more scope than our products and services, and in other instances we sell through distributors.

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

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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 a fee or credit for the value of the electrical capacity provided by the system during peak power demand (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.

**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. Supplemental statement of cash flows information for the years ended December 31, 2015, 2014 and 2013 is as follows:

|                                | 2015   | 2014     | 2013   |
|--------------------------------|--------|----------|--------|
| Cash paid during the year for: |        |          |        |
| Interest                       | \$ 979 | \$ 1,020 | \$ 666 |
| Income taxes                   | 359    | 288      | 975    |

There were no non-cash investing or financing activities during the years ended December 31, 2015, 2014 or 2013. Cash flows from interest rate swap contracts designated as cash flow hedges are included as a component of interest expense.

**Accounts Receivable** Accounts receivable includes both billed and unbilled receivables from our customers. The balance of unbilled receivables included in accounts receivable was \$63.9 million at December 31, 2015, including \$62.0 million of project-based receivables. The balance of unbilled receivables included in accounts receivable was \$34.5 million at December 31, 2014, including \$32.8 million of project-based receivables. 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 monitor collections and payments from our customers and adjust credit limits of customers based upon payment history and a customer's current credit worthiness, as judged by us. In certain instances, from time to time, we may purchase credit insurance on our accounts receivable in order to minimize our exposure to potential credit loss. 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 them with multiple domestic financial institutions. Nevertheless, our cash in bank deposit accounts at these financial institutions frequently exceeds federally insured limits. 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. During the year ended December 31, 2015, our revenues from Georgia Power and Oncor Electric Delivery Company, LLC represented 13.8% and 10.8%, respectively, of our consolidated revenue. Over the past three years, virtually all of our revenues have been generated from customers in the United States, although during the year ended December 31, 2015, we commenced receiving revenues from customers in Canada and the Bahamas, and expect revenues from such countries to increase in 2016.

***Inventories*** Inventories are stated at the lower of cost (determined primarily on a specific-identification basis for the majority of our distributed generation inventory and secondarily on a first-in first-out basis for our LED-based lighting product inventory) or market. Our raw materials, equipment and supplies inventory consist primarily of equipment with long lead-times purchased for anticipated customer orders. Our work in progress inventory consists primarily of equipment and parts allocated to specific Distributed Generation, Solar, Utility Infrastructure, and Energy Efficiency Services project costs accounted for on the percentage-of-completion basis. Our finished goods inventory consists primarily of LED-based lighting products stocked to meet customer order and delivery requirements. Inventory



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also includes shipping costs incurred on incoming product shipments. We provide a valuation reserve primarily for raw materials, equipment and supplies and certain work in process inventory items that may be in excess of our needs, obsolete or damaged and requiring repair or re-work.

Inventories at December 31, 2015 and 2014 are summarized as follows:

|                                       | <b>2015</b>      | <b>2014</b>      |
|---------------------------------------|------------------|------------------|
| Raw materials, equipment and supplies | \$ 30,051        | \$ 21,461        |
| Work in process                       | 30,600           | 9,321            |
| Finished goods                        | 4,396            | 5,252            |
| Valuation reserve                     | (985)            | (890)            |
| <b>Total</b>                          | <b>\$ 64,062</b> | <b>\$ 35,144</b> |

**Property, Plant and Equipment** Property, plant and equipment are stated at cost and are generally depreciated using the straight-line method over their estimated useful lives, which depending on asset class ranges from 3 to 30 years. Depreciation expense on property, plant and equipment was \$6.7 million, \$6.5 million, and \$5.7 million for the years ended December 31, 2015, 2014 and 2013, respectively. Property, plant and equipment includes items under capital lease with a net book value of \$4.2 million at December 31, 2014. As discussed in Note 9, the capital lease term expired in December 2015 and we exercised our option to purchase the equipment.

**Goodwill and Other Intangible Assets** We amortize the cost of intangible assets that do not have an indefinite life over their estimated useful lives. We do not amortize goodwill and intangible assets with indefinite lives. Amortization expense on intangible assets was \$3.8 million, \$2.4 million, and \$1.6 million for the years ended December 31, 2015, 2014 and 2013, respectively. We perform reviews of goodwill and intangible assets with indefinite lives for impairment annually, as of October 1, or more frequently if impairment indicators arise. Based on the results of our annual reviews, we have concluded that there has been no impairment of goodwill or intangible assets during the three years ended December 31, 2015. The following is a summary of changes in the balance of our goodwill for the years ended December 31, 2015 and 2014:

|   | <b>2015</b> | <b>2014</b> |
|---|-------------|-------------|
| Goodwill, beginning of year                 | \$ 40,210   | \$ 30,226   |
| Addition due to the following acquisitions: |             |             |
| ESCO Energy Services                        | 1,372       |             |
| Apex Electrical Contracting Business        |             | 605         |
| Mission Critical Energy Services            |             | 9,379       |
| Goodwill, end of year                       | \$ 41,582   | \$ 40,210   |

We capitalize software development costs integral to our products once technological feasibility of the products and software has been determined. Purchased software and software development costs are amortized over five years, using the straight-line method. Total software and software development costs at December 31, 2015 and 2014 are \$4.4 million and \$3.8 million, respectively. Unamortized software and software development costs at December 31, 2015 and 2014 are \$1.2 million and \$1.7 million, respectively. Patents and license agreements and other intangibles

are amortized using the straight-line method over the lesser of their estimated economic lives or their legal term of existence, currently 3 to 5 years. Total patent and license and other intangible costs at December 31, 2015 and 2014 are \$17.7 million and \$16.6 million, respectively. Unamortized patent and license and other intangible costs at December 31, 2015 and 2014 are \$10.6 million and \$11.9 million, respectively.

***Debt Issuance Costs*** Debt issuance costs associated with our revolving line of credit are capitalized and included in other current and non-current assets in our consolidated balance sheets. Debt issuance costs associated with our term loan debt are capitalized and included as a reduction of the balance of our long-term debt. In both cases, these costs are amortized over the term of the corresponding debt instrument using the straight-line method for debt issuance costs related to the revolving portion of our credit facility and the effective interest method for debt issuance costs on our term loan debt. Amortization of debt issuance costs was \$0.1 million for each of the years ended December 31, 2015, 2014 and 2013, respectively, and is included in interest expense in our consolidated statements of operations.

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Debt issuance costs associated with our revolving line of credit included in other current and non-current assets consisted of the following at December 31, 2015 and 2014:

|  | <b>2015</b> | <b>2014</b> |
|--|-------------|-------------|
| Debt issuance costs, beginning of year | \$ 32       | \$ 95       |
| Deferred debt charges                  | 208         | 42          |
| Amortization of debt issuance costs    | (39)        | (105)       |
| Debt issuance costs, end of year       | \$ 201      | \$ 32       |

Deferred debt charges capitalized during the year ended December 31, 2015 consists of bank fees incurred in connection with the November 3, 2015 amendment to our existing credit facility to expand and extend the terms of the revolving portion of our credit facility as discussed further in Note 7.

**Accrued and Other Liabilities** Accrued and other liabilities at December 31, 2015 and 2014 are summarized as follows:

|  | <b>2015</b>      | <b>2014</b>      |
|--|------------------|------------------|
| Accrued project costs                              | \$ 10,190        | \$ 7,254         |
| Payroll, employee benefits and related liabilities | 9,355            | 6,321            |
| Advance billings on projects in progress           | 19,530           | 16,788           |
| Warranty reserve                                   | 1,726            | 1,674            |
| Sales, property and franchise taxes                | 816              | 784              |
| Deferred revenue                                   | 1,034            | 924              |
| Preferred stock redemption obligation              | 104              | 104              |
| Other  | 12,162           | 7,264            |
| <b>Total</b>                                       | <b>\$ 54,917</b> | <b>\$ 41,113</b> |

**Warranty Reserve** We provide a standard one year warranty for our Distributed Generation, switchgear, Utility Infrastructure, and Energy Efficiency Services equipment and a 5 to 10 year warranty for our LED lighting-based products. In certain cases, we offer extended warranty terms for those product lines. In addition, we provide longer warranties for our Solar Energy products and services including a warranty period of generally 1 to 5 years for defects in material and workmanship, a warranty period that can extend to 10 to 20 years for declines in power performance, and a warranty period which can extend to 15 to 25 years on the functionality of solar panels which is generally backed by the panel manufacturer. 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 balance of our warranty reserve included in accrued and other liabilities is set forth below:

|                                       | <b>Year Ended December 31,</b> |             |             |
|---------------------------------------|--------------------------------|-------------|-------------|
|                                       | <b>2015</b>                    | <b>2014</b> | <b>2013</b> |
| Warranty provision, beginning of year | \$ 1,674                       | \$ 1,302    | \$ 1,653    |

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|  |          |          |          |
|--|----------|----------|----------|
| Addition due to acquisitions                   |          |          | 433      |
| Accruals for warranties issued during the year | 415      | 602      | 273      |
| Warranty settlements during the year           | (363)    | (230)    | (1,057)  |
| Warranty provision, end of year                | \$ 1,726 | \$ 1,674 | \$ 1,302 |

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**Share-Based Compensation** We measure compensation cost for all stock-based awards at their 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 last sale price of our common stock on the date of the grant. We measure the fair value of restricted stock units based on the underlying number of shares included in the units that are granted and the last sale price of our common stock on the date of the grant. We measure the fair value of performance unit awards based on the underlying number of shares included in the performance units and the last sale price of our common stock on the date of the grant. We measure the fair value of stock options using the Black-Scholes valuation model.

Pre-tax share-based compensation expense recognized during the years ended December 31, 2015, 2014 and 2013 was \$2.6 million, \$2.1 million and \$0.6 million, respectively. All share-based compensation expense is included in general and administrative expense in the accompanying consolidated statements of operations.

**Impairment or Disposal of Long-Lived Assets** We evaluate our long-lived assets whenever significant events or changes in circumstances occur that indicate that the carrying amount of an asset may be impaired. Recoverability of these assets is determined by comparing the forecasted undiscounted future cash flows from the operations to which the assets relate, based on management's best estimates using appropriate assumptions and projections at the time, to the carrying amount of the assets. If the carrying value is determined not to be recoverable from future operating cash flows, the asset is deemed impaired and an impairment loss is recognized equal to the amount by which the carrying amount exceeds the estimated fair value of the asset or assets. During the years ended December 31, 2015 and 2013, we recorded a loss from the disposal or impairment of long-lived assets in connection with our restructuring charges in the amount of \$0.6 million and \$0.3 million, respectively (see Note 6). We did not record any impairment charges during the year ended December 31, 2014.

**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.

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.

**Derivative Instruments** Our derivative instruments consist solely of two fixed rate interest rate swap contracts that are used to hedge our interest rate risk on a portion of our variable rate debt. These interest rate swap contracts are designated as cash flow hedges. It is our policy to execute such interest rate swaps with creditworthy banks and we do not enter into derivative financial instruments for speculative purposes.

**Fair Value Measurements** We measure our derivative instruments at fair value on a recurring basis. The fair value measurements standard establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements), and the

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lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under the standard are described below:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2 Inputs to the valuation methodology include:
- Quoted market prices for similar assets or liabilities in active markets;
  - Quoted prices for identical or similar assets or liabilities in inactive markets;
  - Inputs other than quoted prices that are observable for the asset or liability;
  - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement. The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

See Note 8 for more information concerning the fair value of our derivative instruments.

***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**

***Leases*** In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, Leases (Topic 842) (ASU 2016-02). ASU 2016-02 requires entities to recognize right-of-use assets and lease liabilities on the balance sheet for the rights and obligations created by all leases, including operating leases, with terms of more than 12 months. The new standard also requires additional disclosures on the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative information. The new standard will be effective for us on January 1, 2019. Early adoption is permitted. We are in the process of evaluating the impact the adoption of this standard will have on our consolidated financial statements and related disclosures.

***Balance Sheet Classification of Deferred Taxes*** In November 2015, the FASB issued ASU No. 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes (ASU 2015-17). ASU 2015-17 requires entities to present deferred tax assets and deferred tax liabilities as noncurrent in a classified balance sheet. The new standard is

effective for public entities for annual periods beginning after December 15, 2016, with early adoption allowed on either a prospective or retrospective basis. We adopted ASU 2015-17, on a prospective basis, for our annual period ending December 31, 2015. Accordingly, the accompanying consolidated balance sheet at December 31, 2015 reflects the presentation of deferred tax assets and deferred tax liabilities in accordance with ASU 2015-17. As permitted under ASU 2015-17, the accompanying consolidated balance sheet for December 31, 2014 has not been retrospectively adjusted.

***Business Combinations*** In September 2015, the FASB issued ASU No. 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments ( ASU 2015-16 ). The new standard requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period

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in the reporting period in which the adjustment amounts are determined and sets forth new disclosure requirements related to the adjustments. The new standard will be effective for us on January 1, 2016. We do not expect that the adoption of this standard will have a material effect on our consolidated financial statements.

***Inventory Measurement*** In July 2015, the FASB issued ASU No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory ( ASU 2015-11 ), which requires entities to measure inventory at the lower of cost and net realizable value ( NRV ). ASU 2015-11 defines NRV as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The ASU will not apply to inventories that are measured by using either the last-in, first-out method or the retail inventory method. The guidance in ASU 2015-11 is effective prospectively for fiscal years beginning after December 15, 2016, and interim periods therein. Early adoption is permitted. Upon transition, entities must disclose the nature of and reason for the accounting change. We do not expect that the adoption of this standard will have a material effect on our consolidated financial statements.

***Presentation of Debt Issuance Costs*** In April 2015, the FASB issued ASU No. 2015-03: Simplifying the Presentation of Debt Issuance Costs ( ASU 2015-03 ), and in August 2015, the FASB issued ASU 2015-15: Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements ( ASU 2015-15 ). These ASUs require debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt consistent with debt discounts. The presentation and subsequent measurement of debt issuance costs associated with lines of credit, may be presented as an asset and amortized ratably over the term of the line of credit arrangement, regardless of whether there are outstanding borrowings on the arrangement. The recognition and measurement guidance for debt issuance costs are not affected by these ASUs. These ASUs are effective for financial statements issued for fiscal years beginning after December 15, 2015 and interim periods within those years. Early adoption is permitted for financial statements that have not been previously issued, and retrospective application is required for each balance sheet presented. We adopted the provisions of ASU 2015-03 and ASU 2015-15 on a retrospective basis for our annual period ended December 31, 2015. The retrospective adoption of these standards resulted in the reclassification of \$0.1 million of current and noncurrent assets as a direct reduction against the balance of our long-term debt in the accompanying consolidated balance sheet at December 31, 2014, but had no effect on our consolidated net income (loss) or stockholders' equity.

***Going Concern Disclosures*** In August 2014, the FASB issued ASU No. 2014-15: Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern ( ASU 2014-15 ). ASU 2014-15 requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued and provides guidance on determining when and how to disclose going concern uncertainties in the financial statements. Certain disclosures will be required if conditions give rise to substantial doubt about an entity's ability to continue as a going concern. ASU 2014-15 is effective for annual and interim reporting periods ending after December 15, 2016, with early adoption permitted. We do not expect that the adoption of this standard will have a material effect on our consolidated financial statements.

***Stock Compensation*** In June 2014, the FASB issued ASU No. 2014-12, Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period ( ASU 2014-12 ). ASU 2014-12 requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This standard further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the periods for which the requisite service has already been rendered. The new standard is effective for fiscal years, and interim periods



within those fiscal years, beginning after December 15, 2015 and can be applied either prospectively or retrospectively to all awards outstanding as of the beginning of the earliest annual period presented as an adjustment to opening retained earnings. Early adoption is permitted. We do not expect that the adoption of this standard will have a material effect on our consolidated financial statements.

**Revenue Recognition** In May 2014, the FASB issued ASU No. 2014-09: Revenue from Contracts with Customers ( ASU 2014-09 ). The new standard was originally effective for reporting periods beginning after December 15, 2016 and early adoption was not permitted. On August 12, 2015, the FASB approved a one year delay of the effective date to reporting periods beginning after December 15, 2017, while permitting companies to voluntarily adopt the new

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standard as of the original effective date. This standard replaces existing accounting literature relating to how and when a company recognizes revenue. Under ASU 2014-09, a company will recognize revenue when it transfers goods or services to customers in an amount equal to the amount that it expects to be entitled to receive in exchange for those goods and services. This standard also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments. ASU 2014-09 will be effective for us for our fiscal year that begins January 1, 2018, and permits the use of either the retrospective or cumulative effect transition method. We are in the process of determining the method of adoption and evaluating the impact, if any, the adoption of this standard will have on our consolidated financial statements and related disclosures.

**Reporting Discontinued Operations** In April 2014, the FASB issued ASU No. 2014-08: Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity ( ASU 2014-08 ). ASU 2014-08 changes the definition of a discontinued operation to include only those disposals of components of an entity that represent a strategic shift that has (or will have) a major effect on an entity's operations and financial results, and changes the criteria and enhances disclosures for reporting discontinued operations. This standard is to be applied prospectively, and is effective for our fiscal year that began January 1, 2015. The adoption of this standard had no effect on our consolidated financial statements.

**4. Earnings (Loss) per Share**

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 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 using the treasury stock method. Diluted earnings per share excludes the impact of potential common shares related to stock options in periods in which we report a loss from continuing operations or in which the option 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 0.5 million common shares issuable upon the potential exercise of outstanding stock options were excluded from the calculation of diluted weighted average number of shares outstanding for the year ended December 31, 2014, because their effect was antidilutive to our net loss 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:

|   | <b>Year Ended December 31,</b> |             |             |
|---|--------------------------------|-------------|-------------|
|   | <b>2015</b>                    | <b>2014</b> | <b>2013</b> |
| Net income (loss) attributable to PowerSecure International, Inc. | \$ 5,839                       | \$ (6,992)  | \$ 4,412    |
| Basic weighted-average common shares outstanding in period        | 22,449                         | 22,263      | 19,837      |
| Dilutive effect of stock options                                  | 123                            |             | 323         |
|   | 22,572                         | 22,263      | 20,160      |

Diluted weighted-average common shares outstanding in period

|  |         |           |         |
|--|---------|-----------|---------|
| Basic earnings (loss) per common share   | \$ 0.26 | \$ (0.31) | \$ 0.22 |
| Diluted earnings (loss) per common share | \$ 0.26 | \$ (0.31) | \$ 0.22 |

## 5. Acquisitions

**2015 Acquisition of ESCO Energy Services Company, Inc.** On December 1, 2015, we acquired ESCO Energy Services Company, Inc. ( ESCO 2015 Acquisition ), a private company based in Lennox, Massachusetts that provides

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energy efficiency facilities services to business, government agencies and other institutions across the United States. The purchase price paid for the acquired business and assets was \$0.9 million cash, inclusive of a \$0.2 million working capital adjustment, and \$0.8 million of note financing payable to the seller (see Note 7), plus potential additional contingent cash payment in the amount of up to \$1.8 million in the event contracted sales achieved by the acquired business exceeds certain baseline targets.

The acquired business provides full turnkey energy efficiency services including energy audits, materials procurement, project management, implementation and verification. We anticipate that the acquisition will provide us with an expanded geographical presence in the Northeast and additional market sectors outside of our existing traditional energy services customer base.

Total revenues and pre-tax loss from the ESCO operations since the date of acquisition included in the accompanying consolidated statements of operations for the year ended December 31, 2015 were not material. In addition, acquisition related costs incurred by us in the amount of \$55 thousand were recognized as an expense during the year ended December 31, 2015, and are included in general and administrative expense in the accompanying consolidated statements of operations.

The following table summarizes the fair value of the consideration paid and the allocation of the fair value of the assets acquired:

|                                    |              |
|------------------------------------|--------------|
| Consideration paid to Seller:      |              |
| Cash                               | \$ 725       |
| Working capital adjustment         | 202          |
| Note financing                     | 835          |
| Contingent consideration           | 900          |
| <br>Total consideration paid       | <br>\$ 2,662 |
| Net working capital                | \$ 159       |
| Property, plant and equipment, net | 41           |
| Identifiable intangible assets:    |              |
| Customer relationships             | 900          |
| Trade name                         | 100          |
| Backlog                            | 90           |
| <br>Total identifiable net assets  | <br>1,290    |
| Goodwill                           | 1,372        |
|                                    | <br>\$ 2,662 |

We determined the fair value of the contingent consideration payable on the date of acquisition based upon the probability-weighted present values of expected sales. As part of the purchase price allocation, we determined that the separately identifiable intangible assets acquired consisted of customer relationships, trade name, and backlog which were valued using the income approach. This approach calculates the fair value by discounting the forecasted after-tax cash flows for each intangible asset back to a present value at an appropriate risk-adjusted rate of return. The data for these analyses was the cash flow estimates used to price the transaction. Fair value estimates are based on a complex

series of judgments about future events and uncertainties and rely heavily on estimates and assumptions.

In estimating the useful lives of the acquired assets, we considered ASC 350-30-35, *General Intangibles Other Than Goodwill*, and reviewed the following factors: the expected use of the assets acquired, the expected useful life of another asset (or group of assets) related to the acquired assets, legal, regulatory or other contractual provisions that may limit the useful life of an acquired asset, the effects of obsolescence, demand, competition and other economic factors, and the level of maintenance expenditures required to obtain the expected future cash flows from the assets. We amortize these intangible assets over their estimated useful lives on a straight-line basis.

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The goodwill of \$1.4 million arising from the acquisition consists largely of the assembled salesforce and the synergies and economies of scale expected from combining the operations of our existing energy services operations and the ESCO 2015 business acquired. All of the goodwill has been assigned to our Energy Efficiency segment. We expect that all of the acquired goodwill will be deductible for tax purposes.

Supplemental pro forma information, as if the acquisition had occurred on January 1, 2014, is as follows:

|  | <b>PowerSecure International, Inc.<br/>ESCO 2015<br/>Pro Forma Results of Operations<br/>For the Years Ended December 31,</b> |             |
|--|---|-------------|
|  | <b>2015</b>   | <b>2014</b> |
| Revenues   | \$ 447,163  | \$ 265,267  |
| Net income (loss) attributable to PowerSecure International, Inc.          | \$ 4,422  | \$ (7,391)  |
| Earnings (loss) per share attributable to PowerSecure International, Inc.: |   |             |
| Basic  | \$ 0.20   | \$ (0.33)   |
| Diluted  | \$ 0.20   | \$ (0.33)   |

The supplemental pro forma information above is based on estimates and assumptions that we believe are reasonable. The pro forma information presented is not necessarily indicative of the consolidated results of operations in future periods or the results that actually would have been realized had the acquisition occurred on January 1, 2014. The supplemental pro forma results above exclude any benefits that may result from the acquisition due to synergies that are expected to be derived from the elimination of any duplicative costs. In addition, the pro forma results for the year ended December 31, 2015 were adjusted to exclude aggregate acquisition-related cost of \$0.1 million incurred by us in 2015.

**2014 Acquisition of Mission Critical Energy Services Business** On October 14, 2014, we acquired the mission critical energy services business and certain related assets of Power Design, Inc., a Florida corporation ( PDI ), pursuant to an Asset Purchase and Sale Agreement (the Purchase Agreement ), between PDI, as seller, and PowerSecure, Inc., as purchaser. The purchase price paid for the acquired business and assets was \$13.0 million in cash and \$0.1 million cash for a working capital adjustment plus a potential additional contingent cash payment in the amount of \$1.0 million if PowerSecure, Inc. obtains firm backlog after the closing in the amount of at least \$5.0 million from the acquired business, or in the amount of \$2.0 million if the firm backlog amount obtained after closing is at least \$15.0 million. In accordance with the terms of the Purchase Agreement, we paid \$1.0 million of contingent cash consideration to PDI on April 3, 2015 and we paid an additional \$1.0 million of contingent cash consideration to PDI on September 11, 2015 as the result of post-closing backlog the acquired business has generated. The balance of our contingent consideration liability related to this acquisition at December 31, 2015 and 2014 was \$0 and \$1.9 million, respectively.

The acquired business provides full turnkey electrical infrastructure design, implementation and commissioning services to data center owners. We had previously provided our data center solutions as a supplier to PDI. We anticipate that the acquisition will provide us with a direct customer channel and capabilities to accelerate our access to key data center decision makers who are designing and evaluating backup power and control systems for their facilities.

The Purchase Agreement contains representations and warranties as well as indemnification obligations by PDI and PowerSecure, Inc. to each other, subject to a \$3.0 million indemnification cap. In addition, the Purchase Agreement contains a five year covenant not to compete by PDI against PowerSecure, Inc. and its affiliates with respect to the key customers in the acquired business, and related customary restrictive covenants relating to non-solicitation and confidentiality.

Total revenues and pre-tax loss from the Mission Critical Energy Services business since the date of acquisition included in the accompanying consolidated statements of operations for the year ended December 31, 2014 were \$2.7 million and \$(0.4) million, respectively. In addition, acquisition related costs incurred by us in the amount of \$0.1 million were recognized as an expense during the year ended December 31, 2014, and are included in general and administrative expense in the accompanying consolidated statements of operations.

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The following table summarizes the fair value of the consideration paid and the allocation of the fair value of the assets acquired:

|  |                  |
|--|------------------|
| <b>Consideration paid to Seller:</b>   |                  |
| Cash                                   | \$ 13,000        |
| Working capital adjustment             | 70               |
| Contingent consideration               | 1,872            |
| <b>Total consideration paid</b>        | <b>\$ 14,942</b> |
| Net working capital                    | \$ 68            |
| Property, plant and equipment, net     | 95               |
| <b>Identifiable intangible assets:</b> |                  |
| Customer relationships                 | 4,900            |
| Noncompetition agreements              | 350              |
| Technology and know how                | 100              |
| Backlog                                | 50               |
| <b>Total identifiable net assets</b>   | <b>5,563</b>     |
| Goodwill                               | 9,379            |
|  | <b>\$ 14,942</b> |

We determined the fair value of the contingent consideration payable on the date of acquisition based upon the probability-weighted present values of expected cash payments due to PDI for each possible backlog outcome. As part of the purchase price allocation, we determined that the separately identifiable intangible assets acquired consisted of customer relationships, noncompetition agreements, technology and know-how, and backlog which were valued using the income approach. This approach calculates the fair value by discounting the forecasted after-tax cash flows for each intangible asset back to a present value at an appropriate risk-adjusted rate of return. The data for these analyses was the cash flow estimates used to price the transaction. Fair value estimates are based on a complex series of judgments about future events and uncertainties and rely heavily on estimates and assumptions.

In estimating the useful lives of the acquired assets, we considered ASC 350-30-35, *General Intangibles Other Than Goodwill*, and reviewed the following factors: the expected use of the assets acquired, the expected useful life of another asset (or group of assets) related to the acquired assets, legal, regulatory or other contractual provisions that may limit the useful life of an acquired asset, the effects of obsolescence, demand, competition and other economic factors, and the level of maintenance expenditures required to obtain the expected future cash flows from the assets. We amortize these intangible assets over their estimated useful lives on a straight-line basis.

The goodwill of \$9.4 million arising from the acquisition consists largely of the assembled salesforce and the synergies and economies of scale expected from combining the operations of our Distributed Generation segment and the Mission Critical Energy Services business acquired. All of the goodwill has been assigned to our Distributed Generation segment. We expect that all of the acquired goodwill will be deductible for tax purposes.





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Supplemental pro forma information, as if the acquisition had occurred on January 1, 2013, is as follows:

|  | <b>PowerSecure International, Inc.<br/>Mission Critical Business<br/>Pro Forma Results of Operations<br/>For the<br/>Years Ended December 31,</b> |             |
|--|---|-------------|
|  | <b>2014</b>   | <b>2013</b> |
| Revenues   | \$ 268,127  | \$ 281,000  |
| Net income (loss) attributable to PowerSecure International, Inc.          | \$ (5,674)  | \$ 5,889    |
| Earnings (loss) per share attributable to PowerSecure International, Inc.: |   |             |
| Basic  | \$ (0.25)   | \$ 0.30     |
| Diluted  | \$ (0.25)   | \$ 0.29     |

The supplemental pro forma information above is based on estimates and assumptions that we believe are reasonable. The pro forma information presented is not necessarily indicative of the consolidated results of operations in future periods or the results that actually would have been realized had the acquisition occurred on January 1, 2013. The supplemental pro forma results above exclude any benefits that may result from the acquisition due to synergies that are expected to be derived from the elimination of any duplicative costs. In addition, the pro forma results for the year ended December 31, 2014 were adjusted to exclude aggregate acquisition-related cost of \$0.1 million incurred by us in 2014.

**2014 Acquisition of Electrical Contracting Business** On September 2, 2014, we acquired the electrical contracting business of Apex Controls, Inc., a Georgia corporation ( Apex ). The acquired business provides retrofit and electrical contracting services to major retailers, in most cases through general contractors. This acquisition is part of our strategy to expand our Energy Efficiency services directly to retailers. Apex is a company primarily owned and managed by Jonathan Hinton, the son of Sidney Hinton, our President and Chief Executive Officer. The transaction was evaluated and approved by the Audit Committee of our Board of Directors.

The purchase price for the acquisition was \$0.8 million in cash, plus potential additional contingent consideration of up to \$0.5 million in cash if the gross profits generated from the acquired business in 2015 and 2016 exceeds certain targeted thresholds. Total revenues and pre-tax loss from the Apex electrical contracting business since the date of acquisition included in the accompanying consolidated statements of operations for the year ended December 31, 2014 were \$0.4 million and \$(33) thousand, respectively. Acquisition related costs incurred by us were not material.

The following table summarizes the fair value of the consideration paid to the Apex stockholders and the allocation of the purchase price:

|                               |        |
|-------------------------------|--------|
| Consideration paid to Seller: |        |
| Cash                          | \$ 750 |
| Contingent consideration      | 340    |

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|                                    |          |
|------------------------------------|----------|
| Total consideration paid           | \$ 1,090 |
| Property, plant and equipment, net | \$ 155   |
| Identifiable intangible assets:    |          |
| Customer relationships             | 330      |
| Total identifiable net assets      | 485      |
| Goodwill                           | 605      |
|                                    | \$ 1,090 |

We determined the fair value of the contingent consideration by discounting the payments due based on forecasted gross profit from the acquired business in 2015 and 2016 in excess of targeted thresholds back to present values at a risk-adjusted rate of return. As part of the purchase price allocation, we determined that the separately identifiable

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intangible assets acquired consisted of customer relationships which were valued using the income approach. This approach calculates the fair value by discounting the forecasted after-tax cash flows for each intangible asset back to a present value at an appropriate risk-adjusted rate of return. The data for this analysis was the cash flow estimates used to price the transaction. Fair value estimates are based on a complex series of judgments about future events and uncertainties and rely heavily on estimates and assumptions.

In estimating the useful lives of the acquired assets, we considered ASC 350-30-35, *General Intangibles Other Than Goodwill*, and reviewed the following factors: the expected use of the assets acquired, the expected useful life of another asset (or group of assets) related to the acquired assets, legal, regulatory or other contractual provisions that may limit the useful life of an acquired asset, the effects of obsolescence, demand, competition and other economic factors, and the level of maintenance expenditures required to obtain the expected future cash flows from the assets. We amortize intangible assets over their estimated useful lives on a straight-line basis.

The goodwill of \$0.6 million arising from the acquisition consists largely of the assembled workforce and the synergies and economies of scale expected from combining the operations of our Energy Efficiency segment and the Apex electrical contracting business. All of the goodwill was assigned to our Energy Efficiency segment. We expect that all of the acquired goodwill will be deductible for tax purposes.

Supplemental pro forma information, as if the acquisition had occurred on January 1, 2013, is as follows:

|  | <b>PowerSecure International, Inc.<br/>Electrical Contracting Business<br/>Pro Forma Results of Operations<br/>For<br/>the Year Ended December 31,<br/>2014                      2013</b> |            |
|--|---|------------|
| Revenues   | \$ 258,400  | \$ 274,647 |
| Net income (loss) attributable to PowerSecure International, Inc.          | \$ (6,876)  | \$ 4,992   |
| Earnings (loss) per share attributable to PowerSecure International, Inc.: |   |            |
| Basic  | \$ (0.31)   | \$ 0.25    |
| Diluted  | \$ (0.31)   | \$ 0.25    |

The supplemental pro forma information above is based on estimates and assumptions that we believe are reasonable. The pro forma information presented is not necessarily indicative of the consolidated results of operations in future periods or the results that actually would have been realized had the acquisition occurred on January 1, 2013. The supplemental pro forma results above exclude any benefits that may result from the acquisition due to synergies that are expected to be derived from the elimination of any duplicative costs.

**2013 Acquisition of Encari** On October 8, 2013, we acquired substantially all of the assets and business of Encari, LLC, an Illinois limited liability company ( Encari ), which is engaged in the business of providing cyber security consulting and compliance services to the utility industry. Encari helps large investor-owned utilities, municipalities and cooperative utilities assess, improve and maintain their compliance with the North American Electric Reliability Corporation's (NERC) Critical Infrastructure Protection (CIP) Reliability Standards. The acquisition of Encari provides us with new service offerings to our existing utility customers as well as an opportunity to sell PowerSecure

services to existing Encari utility customers.

The purchase price for this acquisition was \$4.8 million in cash, plus potential additional earn-out consideration which was dependent upon the pre-tax net income of the acquired Encari business exceeding certain thresholds over the 12 month period ending December 31, 2013. Based on the actual results of the acquired Encari business for the 12 month period ending December 31, 2013, no earn-out consideration was paid or payable.

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Total revenues and pre-tax income from the Encari business since the date of acquisition included in the accompanying consolidated statements of operations for the year ended December 31, 2013 were \$0.7 million and \$0.2 million, respectively. In addition, acquisition related costs incurred by us in the amount of \$0.1 million were recognized as an expense during the year ended December 31, 2013, and are included in general and administrative expense in the accompanying consolidated statements of operations.

The following table summarizes the consideration paid to the Encari Stockholders and the fair value allocation of the purchase price:

|                                 |          |
|---------------------------------|----------|
| Consideration paid to Seller:   |          |
| Cash                            | \$ 4,764 |
| Accounts receivable, net        | \$ 309   |
| Identifiable intangible assets: |          |
| Customer relationships          | 1,900    |
| Backlog                         | 250      |
| Noncompetition agreement        | 370      |
| Marketing-related assets        | 20       |
| Accounts payable                | (9)      |
| Other current liabilities       | (64)     |
| Total identifiable net assets   | 2,776    |
| Goodwill                        | 1,988    |
|                                 | \$ 4,764 |

As part of the purchase price allocation, we determined that the separately identifiable intangible assets acquired consisted of customer relationships, backlog and noncompetition agreements. We used the income approach to value the customer relationships, backlog and noncompetition agreements. This approach calculates the fair value by discounting the forecasted after-tax cash flows for each intangible asset back to a present value at an appropriate risk-adjusted rate of return. The data for these analyses was the cash flow estimates used to price the transaction. Fair value estimates are based on a complex series of judgments about future events and uncertainties and rely heavily on estimates and assumptions.

In estimating the useful lives of the acquired assets, we considered ASC 350-30-35, *General Intangibles Other Than Goodwill*, and reviewed the following factors: the expected use by the combined company of the assets acquired, the expected useful life of another asset (or group of assets) related to the acquired assets, legal, regulatory or other contractual provisions that may limit the useful life of an acquired asset, the effects of obsolescence, demand, competition and other economic factors, and the level of maintenance expenditures required to obtain the expected future cash flows from the assets. We amortize these intangible assets over their estimated useful lives on a straight-line basis.

The goodwill of \$2.0 million arising from the acquisition consists largely of the assembled workforce of Encari, and the synergies and economies of scale expected from combining the operations of our PowerSecure subsidiary and Encari. All of the goodwill was assigned to our Utility Infrastructure segment and is expected to be deductible for tax purposes.

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Supplemental pro forma information, as if the acquisition had occurred on January 1, 2013, is as follows:

| <b>PowerSecure<br/>International, Inc.<br/>Acquisition of Encari,<br/>LLC<br/>Pro Forma Results of Operations<br/>For the Year Ended<br/>December 31, 2013</b> |            |
|--|------------|
| Revenues   | \$ 272,077 |
| Net income (loss) attributable to PowerSecure International, Inc.  | \$ 4,668   |
| Earnings (loss) per share attributable to PowerSecure International, Inc.:   |            |
| Basic  | \$ 0.23    |
| Diluted  | \$ 0.23    |

The supplemental pro forma information above is based on estimates and assumptions that we believe are reasonable. The pro forma information presented is not necessarily indicative of the consolidated results of operations in future periods or the results that actually would have been realized had the acquisition occurred on January 1, 2012. The supplemental pro forma results above exclude any benefits that may result from the acquisition due to synergies that are expected to be derived from the elimination of any duplicative costs. In addition, the pro forma results for the year ended December 31, 2013 were adjusted to exclude aggregate acquisition-related cost of \$0.1 million incurred by PowerSecure in 2013.

**2013 Acquisition of Solais Lighting** On April 12, 2013, we acquired Solais Lighting, Inc., a Delaware corporation ( Solais ). Solais is a Connecticut-based LED lighting company with a proprietary portfolio of LED lamps and fixtures for commercial and industrial applications. Solais' innovative designs, which are covered by a variety of patents and patents pending, provide their products with enhanced light output, thermal management, optics and light quality, and aesthetics.

The acquisition of Solais strengthens and complements our existing LED business through the addition of new product lines and new skill sets around product design, product commercialization, and manufacturing and sourcing capabilities. In addition, Solais adds to our capabilities in marketing LED lighting through distributor channels.

The acquisition was accomplished through a merger of Solais into Brite Idela, Inc., a Delaware corporation and wholly-owned subsidiary we formed to effectuate the merger and renamed Solais Lighting, Inc. after the merger ( Solais PowerSecure ). As a result of the merger, the assets, properties, business, debts, liabilities and obligations of Solais prior to the merger became those of Solais PowerSecure.

The merger was consummated pursuant to an Agreement and Plan of Merger, dated as of April 12, 2013 (the Solais Merger Agreement ), by and among Solais, the stockholders of Solais (the Solais Stockholders ), us and Solais PowerSecure. The merger consideration paid by us to the stockholders of Solais was valued under the Solais Merger Agreement at an aggregate of \$15 million, less an adjustment deducting the working capital deficit of approximately \$0.2 million, and was subject to a post-closing true up adjustment of the final closing working capital balance. As a result, the aggregate merger consideration paid by us consisted of approximately \$6.5 million in cash plus 675,160



shares of our common stock. For purposes of the Merger and the merger consideration, the shares of common stock we issued in the acquisition of Solais were valued at \$12.22 per share, which was their volume-weighted average closing sale price as reported on the Nasdaq Global Select Market over the five trading days immediately preceding the date the merger was completed. For purposes of applying the purchase accounting provisions of ASC 805, *Business Combinations* (ASC 805), the shares of common stock we issued in the acquisition were valued at \$12.52 per share, which was the closing sale price of our common stock as reported on the Nasdaq Global Select Market on the date of acquisition. All outstanding shares of capital stock of Solais were converted into and exchanged for the merger consideration. The merger became effective on April 12, 2013.

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Total revenues and pre-tax loss from the Solais business since the date of acquisition included in the accompanying consolidated statements of operations for the year ended December 31, 2013 were \$5.9 million and \$(1.6) million, respectively. In addition, acquisition related costs incurred by us in the amount of \$0.4 million were recognized as an expense during the year ended December 31, 2013, and are included in general and administrative expense in the accompanying consolidated statements of operations.

The Solais Merger Agreement contains customary representations and warranties as well as indemnification obligations, and limitations thereon, by us and the Solais Stockholders to each other, including a \$1.5 million two year escrow out of the cash portion of the merger consideration to support the indemnification obligations of the Solais Stockholders. The following table summarizes the consideration paid to the Solais Stockholders and the fair value allocation of the purchase price:

|                                    |               |
|------------------------------------|---------------|
| Consideration paid to Seller:      |               |
| Cash                               | \$ 6,535      |
| Shares of Company common stock     | 8,453         |
| <br>Total consideration paid       | <br>\$ 14,988 |
| Cash and cash equivalents          | \$ 165        |
| Accounts receivable, net           | 625           |
| Inventories                        | 194           |
| Other current assets               | 62            |
| Property, plant and equipment, net | 286           |
| Deferred tax asset                 | 769           |
| Identifiable intangible assets:    |               |
| Customer relationships             | 1,900         |
| Noncompetition agreement           | 140           |
| Developed technology               | 1,200         |
| Accounts payable                   | (665)         |
| Accrued and other liabilities      | (1,011)       |
| <br>Total identifiable net assets  | <br>3,665     |
| Goodwill                           | 11,323        |
|                                    | <br>\$ 14,988 |

As part of the purchase price allocation, we determined that the separately identifiable intangible assets acquired consisted of customer relationships, developed technology and noncompetition agreements. We used the income approach to value the customer relationships, developed technology and noncompetition agreements. This approach calculates the fair value by discounting the forecasted after-tax cash flows for each intangible asset back to a present value at an appropriate risk-adjusted rate of return. The data for these analyses was the cash flow estimates used to price the transaction. Fair value estimates are based on a complex series of judgments about future events and uncertainties and rely heavily on estimates and assumptions.

In estimating the useful lives of the acquired assets, we considered ASC 350-30-35, *General Intangibles Other Than Goodwill*, and reviewed the following factors: the expected use by the combined company of the assets acquired, the

expected useful life of another asset (or group of assets) related to the acquired assets, legal, regulatory or other contractual provisions that may limit the useful life of an acquired asset, the effects of obsolescence, demand, competition and other economic factors, and the level of maintenance expenditures required to obtain the expected future cash flows from the assets. We amortize these intangible assets over their estimated useful lives on a straight-line basis.

The goodwill of \$11.3 million arising from the acquisition consists largely of the assembled workforce of Solais, and the synergies and economies of scale expected from combining the operations of our PowerSecure subsidiary and Solais. All of the goodwill was assigned to our Energy Efficiency segment. None of the acquired goodwill is expected to be deductible for tax purposes. As part of the purchase price allocation process, the amount of the purchase price allocated to goodwill was increased by \$0.1 million and the amount of the purchase price allocated to inventory was decreased by \$0.1 million from our initial allocation.

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Supplemental pro forma information, as if the acquisition had occurred on January 1, 2013, is as follows:

| <b>PowerSecure<br/>International, Inc.<br/>Acquisition of Solais Lighting, Inc.<br/>Pro Forma Results of Operations<br/>For the Year Ended<br/>December 31, 2013</b> |            |
|--|------------|
| Revenues   | \$ 271,944 |
| Net income (loss) attributable to PowerSecure International, Inc.  | \$ 4,341   |
| Earnings (loss) per share attributable to PowerSecure International, Inc.:   |            |
| Basic  | \$ 0.21    |
| Diluted  | \$ 0.21    |

The supplemental pro forma information above is based on estimates and assumptions that we believe are reasonable. The pro forma information presented is not necessarily indicative of the consolidated results of operations in future periods or the results that actually would have been realized had the acquisition occurred on January 1, 2013. The supplemental pro forma results above exclude any benefits that may result from the acquisition due to synergies that are expected to be derived from the elimination of any duplicative costs. In addition, the pro forma results for the year ended December 31, 2013 were adjusted to exclude aggregate acquisition-related cost of \$1.2 million incurred by PowerSecure and Solais, collectively, in 2013.

**2013 Acquisition of Energy Efficiency Services Business** On February 28, 2013, we acquired certain assets, including contracts with customers relating to energy efficiency projects, of the Energy Efficiency Services ( EES ) business of Lime Energy Services Co. ( LESCO ), a Massachusetts corporation and wholly-owned subsidiary of Lime Energy Co., a Delaware corporation ( Lime ). The acquired Energy Efficiency Services business involves the design, installation and maintenance of energy conservation measures, primarily as a subcontractor to large energy service company providers ( ESCOs ), for the benefit of commercial, industrial and institutional customers as end users. The acquisition expanded our portfolio of energy efficient facility technologies and expertise, which now includes lighting solutions, HVAC system upgrades, building envelope upgrades, transformer efficiency upgrades and water conservation systems. The acquired business serves ESCOs by providing energy efficiency solutions across a range of facilities, including high-rise office buildings, distribution facilities, manufacturing plants, retail sites, mixed use complexes, and large government sites.

The acquisition was consummated pursuant to an Asset Purchase and Sale Agreement, dated as of February 28, 2013 (the LESCO Purchase Agreement ), by and among LESCO, as the seller, Lime, as the seller's parent, and PowerSecure, as the purchaser. Pursuant to the LESCO Purchase Agreement, we completed the acquisition of certain assets and working capital liabilities and the assumption of customer contracts of LESCO, for cash. The assigned contracts required the consent of the customers to complete the assignment, so PowerSecure and LESCO entered into a subcontracting arrangement in the interim to facilitate our obtaining the rights and benefits, and taking on the duties and obligations, of LESCO under the assumed contracts after the closing. In connection with the acquisition, we entered into certain indemnifications to the surety on the bonds for certain projects that were bonded prior to the closing by LESCO, and have continued to do so after the closing with respect to the assumed contracts until the projects are completed or until the consents are obtained and the bonding can be completed in our name directly.

The acquisition was effective as of the end of the day on February 28, 2013. Total revenues and pre-tax income from the Energy Efficiency Services business since the date of acquisition included in the accompanying consolidated statements of operations for the year ended December 31, 2013 were \$28.3 million and \$2.3 million, respectively. In addition, acquisition related costs in the amount of \$0.1 million were recognized as an expense during the year ended December 31, 2013, and are included in general and administrative expense in the accompanying consolidated statements of operations.

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The LESCO Purchase Agreement contains customary representations and warranties as well as indemnification obligations by LESCO and Lime, on the one hand, and by us, on the other hand, to each other. In addition, the LESCO Purchase Agreement contains a five year covenant not to compete by LESCO and Lime against us and our affiliates in the acquired business, subject to certain exceptions related to their retained businesses, and related customary restrictive covenants. Correspondingly, the LESCO Purchase Agreement contains a five year covenant not to compete by us against LESCO and Lime and their affiliates in their retained business relating to small business direct install programs and related customary restrictive covenants, subject to certain exceptions such as for our current business.

The following table summarizes the consideration paid to LESCO, including amounts paid as part of a post-closing true-up adjustment, for the Energy Efficiency Services business and the components and the fair value allocation of the purchase price.

|   |          |
|---|----------|
| Consideration paid to Seller:               |          |
| Cash  | \$ 1,971 |
| Accounts receivable                         | \$ 5,735 |
| Inventories                                 | 558      |
| Property, plant and equipment, net          | 135      |
| Identifiable intangible assets:             |          |
| Customer relationships                      | 1,400    |
| Trademarks                                  | 160      |
| Backlog                                     | 120      |
| Noncompetition agreement                    | 90       |
| Databases                                   | 90       |
| Accounts payable                            | (1,259)  |
| Accrued and other liabilities               | (8,752)  |
| Total identifiable net assets (liabilities) | (1,723)  |
| Goodwill                                    | 3,694    |
|   | \$ 1,971 |

As part of the purchase price allocation, we determined that the separately identifiable intangible assets acquired consisted of customer relationships, trademarks, backlog, noncompetition agreement and a database and software license to use certain proprietary software tools that LESCO had developed, which are used to assist in the preparation of contract pricing.

We used the income approach to value the customer relationships, noncompetition agreements, trademarks, technology-based assets and order backlog. This approach calculates the fair value by discounting the forecasted after-tax cash flows for each intangible asset back to a present value at an appropriate risk-adjusted rate of return. The data for these analyses was the cash flow estimates used to price the transaction. Fair value estimates are based on a complex series of judgments about future events and uncertainties and rely heavily on estimates and assumptions.

In estimating the useful lives of the acquired assets, we considered ASC 350-30-35, *General Intangibles Other Than Goodwill*, and reviewed the following factors: the expected use by the combined company of the assets acquired, the expected useful life of another asset (or group of assets) related to the acquired assets, legal, regulatory or other

contractual provisions that may limit the useful life of an acquired asset, the effects of obsolescence, demand, competition and other economic factors, and the level of maintenance expenditures required to obtain the expected future cash flows from the assets. We amortize these intangible assets over their estimated useful lives on a straight-line basis.

The goodwill of \$3.7 million arising from the acquisition consists largely of the assembled workforce of the Energy Efficiency Services business, and the synergies and economies of scale expected from combining the operations of our PowerSecure subsidiary and the Energy Efficiency Services business. All of the goodwill was assigned to our Energy Efficiency segment and is expected to be deductible for tax purposes.

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Supplemental pro forma information, as if the acquisition had occurred on January 1, 2013, is as follows:

|  | <b>PowerSecure International, Inc.<br/>Acquisition of EES Business<br/>Pro Forma Results of Operations<br/>For the Year Ended<br/>December 31, 2013</b> |         |
|--|---|---------|
| Revenues   | \$  | 272,250 |
| Net income (loss) attributable to PowerSecure International, Inc.          | \$  | 4,132   |
| Earnings (loss) per share attributable to PowerSecure International, Inc.: |   |         |
| Basic  | \$  | 0.20    |
| Diluted  | \$  | 0.20    |

The supplemental pro forma information above is based on estimates and assumptions that we believe are reasonable. The pro forma information presented is not necessarily indicative of the consolidated results of operations in future periods or the results that actually would have been realized had the acquisition occurred on January 1, 2013. The supplemental pro forma results above exclude any benefits that may result from the acquisition due to synergies that are expected to be derived from the elimination of any duplicative costs. In addition, the pro forma results for the year ended December 31, 2013 were adjusted to exclude aggregate acquisition-related cost of \$0.1 million incurred by PowerSecure in 2013.

**2013 Acquisition of PowerLine** On May 20, 2013, we acquired the business and certain assets of Powerline EHV & Safety Training, LLC, a Georgia limited liability company ( PowerLine ). The acquired PowerLine business involves safety training in the electrical utility industry. The acquisition was consummated pursuant to an Asset Purchase Agreement, dated May 20, 2013 (the PowerLine Purchase Agreement ) between PowerLine, as the seller, and PowerSecure, as the purchaser. Pursuant to the PowerLine Purchase Agreement, we acquired certain training materials and property, plant and equipment for a cash payment of \$0.6 million at closing and annual cash installment payments of \$0.1 million over the next five years.

We are using the assets and resources of PowerLine to conduct safety training for our Utility Infrastructure personnel. The PowerLine acquisition provides us with dedicated efficient and effective safety resources for our employees, enhancing our overall safety programs. We do not provide safety training services to third-parties. Accordingly, there have been no revenues associated with the PowerLine acquisition since the date of acquisition. Acquisition related costs were not significant.



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The following table summarizes the consideration paid to the PowerLine Stockholder and the preliminary fair value allocation of the purchase price.

|  |                 |
|--|-----------------|
| <b>Consideration paid to Seller:</b>           |                 |
| Cash   | \$ 550          |
| Installment payments payable, discounted value | 497             |
| <b>Total consideration paid</b>                | <b>\$ 1,047</b> |
| <b>Property, plant and equipment, net</b>      |                 |
|  | <b>\$ 10</b>    |
| <b>Identifiable intangible assets:</b>         |                 |
| Training materials                             | 200             |
| Noncompetition agreement                       | 500             |
| <b>Total identifiable net assets</b>           | <b>710</b>      |
| Goodwill                                       | 337             |
|  | <b>\$ 1,047</b> |

The goodwill of \$0.3 million arising from the acquisition consists largely of the cost efficiencies we expect to derive from a dedicated safety training program. All of the goodwill was assigned to our Utility Infrastructure segment and is expected to be deductible for tax purposes.

The operating costs of the PowerLine resources have been included within our Utility Infrastructure operating segment since the date of acquisition. Pro forma results of operations for the years ended December 31, 2013 and 2012 have not be included herein as the effects of the acquisition were not material to our results of operations.

**6. Restructuring Charges**

During 2015 and 2013, we engaged in restructuring programs designed to reduce our cost structure and improve productivity. These initiatives consisted of realigning operations, reducing employee counts, rationalizing facilities, changing manufacturing sourcing, eliminating certain products, and other actions designed to reduce our cost structure and improve productivity. We also incurred inventory and long-term asset impairment charges in connection with our restructuring activities for assets sold or made obsolete. Our restructuring program activities and the balances of our accrued restructuring liabilities at December 31, 2015 and 2014 are described in greater detail below.

**2015 Business Realignment Charges** During the fourth quarter 2015, we initiated a business realignment program, taking actions to realign our operations to gain cost and performance efficiencies. These actions, which primarily involved our Utility Infrastructure and Distributed Generation segments, consisted of the reduction of our overhead structure, elimination of certain products and long-term asset writedowns. As a result of these 2015 business realignment initiatives, we incurred pre-tax restructuring charges totaling \$1.4 million during the year ended December 31, 2015. These charges consisted of severance and related costs from the elimination of employee positions and long-lived asset impairment charges. The majority of the expenses associated with the 2015 business realignment charges during the year ended December 31, 2015 are included in restructuring charges as a component of operating expenses. The 2015 business realignment plan and actions are substantially complete at December 31, 2015,

and no additional restructuring charges are expected to be incurred in 2016 associated with the 2015 plan.

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The following table summarizes the 2015 business realignment plan activities and the balance of our accrued liabilities at and for the year ended December 31, 2015:

|   | <b>Employee<br/>Termination<br/>Costs</b> | <b>Long Term Asset<br/>Writedowns</b> | <b>Total</b> |
|---|---|---------------------------------------|--------------|
| <b>2015 Business Realignment Plan:</b>              |   |                                       |              |
| Accrued charges, January 1, 2015                    | \$  | \$                                    | \$           |
| Costs incurred and charged to cost of sales         | 70  |                                       | 70           |
| Costs incurred and charged to restructuring expense | 735                                       | 556                                   | 1,291        |
| Costs paid or otherwise settled                     | (267)                                     | (556)                                 | (823)        |
| Accrued charges, December 31, 2015                  | \$ 538                                    | \$                                    | \$ 538       |

**2013 Business Realignment Charges** During the fourth quarter 2013, we initiated a business realignment program, taking actions to realign our operations to gain cost and performance efficiencies. These actions, which primarily involved our LED lighting operations in our Energy Efficiency segment, consisted of the sale of manufacturing equipment and parts inventory, reorganization and consolidation of the leadership teams, closing facilities and re-sourcing manufacturing to low-cost manufacturers, eliminating certain products, and the reduction of our overhead cost structure by eliminating duplicative facilities and personnel involved in production, sourcing, warehousing and distribution activities. As a result of these 2013 business realignment initiatives, we incurred pre-tax restructuring charges totaling \$0.7 million and \$4.9 million during the years ended December 31, 2014 and 2013, respectively. These charges consisted of loss on the disposal of manufacturing equipment and parts inventory, severance and related costs from the elimination of employee positions, inventory write offs, lease abandonments, and long-lived asset impairment charges. The inventory write-offs in the amount of \$0.3 million and \$3.7 million during the years ended December 31, 2014 and 2013, respectively, are included in cost of sales. The expenses associated with the remaining 2013 business realignment charges total \$0.4 million and \$1.2 million during the years ended December 31, 2014 and 2013, respectively, and are included in restructuring charges as a component of operating expenses. All of the 2013 business realignment charges were complete as of December 31, 2014. The following table summarizes the 2013 business realignment plan activities and the balance of our accrued liabilities at and for the three year period ended December 31, 2015:

|   | <b>Employee<br/>Termination<br/>Costs</b> | <b>Inventory<br/>Writedowns and<br/>Long Term<br/>Asset Disposals</b> | <b>Leasehold<br/>Termination and<br/>Other<br/>Facility<br/>Exit Costs</b> | <b>Total</b> |
|---|---|---|--|--------------|
| <b>2013 Business Realignment Plan:</b>              |   |   |  |              |
| Accrued charges, January 1, 2013                    | \$  | \$  | \$   | \$           |
| Costs incurred and charged to cost of sales         |   | 3,667   |  | 3,667        |
| Costs incurred and charged to restructuring expense | 789                                       | 305   | 110  | 1,204        |

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|   |        |         |       |         |
|---|--------|---------|-------|---------|
| Costs paid or otherwise settled                     | (108)  | (3,972) |       | (4,080) |
| Accrued charges, December 31, 2013                  | 681    |         | 110   | 791     |
| Costs incurred and charged to cost of sales         |        | 312     |       | 312     |
| Costs incurred and charged to restructuring expense | 162    | 116     | 149   | 427     |
| Costs paid or otherwise settled                     | (729)  | (428)   | (259) | (1,416) |
| Accrued charges, December 31, 2014                  | \$ 114 | \$      | \$    | \$ 114  |
| Costs paid or otherwise settled                     | (67)   |         |       | (67)    |
| Accrued charges, December 31, 2015                  | \$ 47  | \$      | \$    | \$ 47   |

The balances of accrued restructuring charges at December 31, 2015 and 2014 are included in current liabilities in our consolidated balance sheet. We expect the majority of the balance of our accrued restructuring charges at December 31, 2015 will be paid or otherwise settled during 2016.

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**Table of Contents****7. Debt and Interest Rate Swap Contracts**

**Long-Term Credit Facility** - We have a long-term credit facility with Citibank, N.A. ( Citibank ), as administrative agent and lender, and other lenders under a credit agreement that we first entered into with our lenders in August 2007 and have amended and restated from time-to-time. At December 31, 2014, our credit agreement with Citibank along with Branch Banking and Trust Company ( BB&T ) as additional lender, consisted of a \$20.0 million senior, first-priority secured revolving line of credit maturing on November 12, 2016, a \$2.6 million term loan maturing on November 12, 2016, and a \$25.0 million, 7 year amortizing term loan maturing on June 30, 2020.

On November 3, 2015, we entered into an amendment to our credit facility with our lenders to 1) increase the size of the revolving loan to \$40 million from \$20 million, the amount of the availability of which will continue to be subject to our compliance with our financial covenants as amended; 2) extend the maturity date of the entire credit facility to June 30, 2020 from November 12, 2016, including the revolving loan and the \$2.6 million term loan; 3) add an accordion provision permitting us to request an increase in the revolving loan by up to an additional \$20 million, subject to lender s participation; and 4) reduce our financial covenant of maximum debt to capitalization ratio at the end of any fiscal quarter to 0.25 from 0.30.

On February 23, 2016, the lenders under our credit agreement provided a waiver of any event of default under our credit agreement arising from the execution of the Merger Agreement (but not the consummation of the Merger) with Southern Company.

The credit facility contains three basic financial covenants. First, under the credit agreement, if cash on hand does not exceed funded indebtedness by at least \$5.0 million, then 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 consolidated Earnings before Interest, Taxes, Depreciation and Amortization ( EBITDA ) plus our lease expense minus our taxes based on income and payable in cash, divided by the sum of our consolidated interest charges plus our lease expenses plus our scheduled principal payments and dividends, computed over the previous period. Prior to the fiscal quarter ended June 30, 2015, the fixed charge coverage ratio was based on our financial results for the third quarter 2014 and subsequent fiscal quarters. Commencing with the fiscal quarter ended June 30, 2015 and continuing thereafter, the fixed charge coverage ratio is based on our financial results for the previous four fiscal quarters on a rolling basis. Second, we are required to maintain a minimum consolidated net worth, computed on a quarterly basis, of not less than the sum of \$142.1 million, plus an amount equal to 50% of our net income each fiscal year commencing with the year ending December 31, 2014, with no reduction for any net loss in any fiscal year, plus 90% of any equity we raise through the sale of equity interests, less the amount of any non-cash charges or losses. Under our third financial covenant, the ratio of our funded indebtedness to our capitalization, computed as funded indebtedness divided by the sum of funded indebtedness plus stockholders equity, cannot exceed 30%. As of December 31, 2015, we were in compliance with these financial covenants.

We have used, and intend to continue to use, the proceeds available under the credit facility to support our growth and future investments in working capital, additional UtilityServices equipment, Company-owned distributed generation projects, other capital expenditures, acquisitions and general corporate purposes.

Outstanding balances under the credit facility bear interest, at our discretion, at either the London Interbank Offered Rate ( LIBOR ) for the corresponding deposits of U. S. Dollars plus an applicable margin, which is on a sliding scale ranging from 2.00% to 3.25% based upon our leverage ratio, or at Citibank s alternate base rate plus an applicable margin, on a sliding scale ranging from 0.25% to 1.50% based upon our leverage ratio. Our leverage ratio is the ratio of our funded indebtedness as of a given date, net of our cash on hand in excess of \$5.0 million, to our consolidated EBITDA, as defined in the credit agreement, for the four consecutive fiscal 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%, Citibank's prime commercial lending rate and 30 day LIBOR plus 1.00%.

In July 2013, we entered into two forward-starting interest rate swap contracts based on three-month LIBOR that effectively converted 80% of the outstanding balance of our \$25 million Term Loan to fixed rate debt. As discussed further in Note 8, we have designated the interest rate swaps as a cash flow hedge of the interest payments due on our floating rate debt. Accordingly, at December 31, 2015, \$12.9 million of our outstanding credit facility debt bears interest at a fixed rate of 3.73% and \$4.9 million of our outstanding credit facility debt bears interest at floating rates as described above. The termination dates of the swap contracts and the maturity date of the \$25 million Term Loan are both June 30, 2020.

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The credit facility contains customary terms and conditions for credit facilities of this type, including restrictions or limits on our ability to incur additional indebtedness, create liens, enter into transactions with affiliates, pay dividends on our capital stock or consolidate or merge with other entities. In addition, the credit agreement 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.

Our obligations under the credit facility are secured by guarantees and security agreements by each of our active subsidiaries, including PowerSecure, Inc. 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 guarantor.

At December 31, 2015, there was an aggregate balance of \$17.8 million outstanding under the two term loans under our credit facility and no balance was outstanding under the revolving portion of the credit facility. During the fourth quarter of 2015, we borrowed and subsequently repaid \$15.0 million on the revolving portion of our credit facility, partially to finance the working capital requirements related to our large-scale solar energy projects described further in Note 11, and we have borrowed additional amounts on the revolving portion of our credit facility in 2016. At December 31, 2015 and 2014, we had \$36.0 million and \$20.0 million, respectively, of available and unused borrowing capacity from our revolving credit facility within the limits of our financial covenants. As a result of borrowings from our revolving credit facility during the first quarter 2016, at March 14, 2016, an aggregate balance of \$25.0 million was outstanding, and there was approximately \$11.0 million of available and unused borrowing capacity within the limits of our financial covenants, under our revolving credit facility. The availability of this capacity under our credit facility includes restrictions on the use of proceeds, and is dependent upon our ability to satisfy certain financial and operating covenants including financial ratios, as discussed above.

**Acquisition Term Notes** We financed a portion of the 2015 ESCO Acquisition (see Note 5) with two unsecured promissory notes payable to the seller in the aggregate amount of \$0.8 million. The first acquisition term note in the principal amount of \$685 thousand is payable in four equal quarterly installments, plus interest at 5%, during 2016. The second acquisition term note in the principal amount of \$150 thousand is payable on December 1, 2017.

The following table summarizes the balances outstanding on our long-term debt at December 31, 2015 and December 31, 2014:

|  | <b>December 31,<br/>2015</b> | <b>December 31,<br/>2014</b> |
|--|------------------------------|------------------------------|
| Revolving line of credit, maturing June 30, 2020   | \$                           | \$                           |
| Term loan, principal of \$0.04 million plus interest payable quarterly at variable rates, maturing June 30, 2020 | 1,760                        | 1,920                        |
| Term loan, principal of \$0.9 million plus interest payable quarterly at variable rates, maturing June 30, 2020  | 16,072                       | 19,643                       |
| Acquisition term notes payable   | 835                          |                              |
| <b>Total debt</b>  | <b>18,667</b>                | <b>21,563</b>                |
| Less: Unamortized debt issuance costs, term loans  | (64)                         | (102)                        |
| <b>Total debt, net of term loan debt issuance costs</b>  | <b>18,603</b>                | <b>21,461</b>                |
| Less: Current portion  | (4,416)                      | (3,731)                      |

|  |    |        |    |        |
|--|----|--------|----|--------|
| Long-term debt, net of current portion | \$ | 14,187 | \$ | 17,730 |
|--|----|--------|----|--------|

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Scheduled annual principal payments on our outstanding debt obligations at December 31, 2015 are as follows:

| Scheduled Principal Payments for<br>the Year Ending December 31: | Revolving<br>Line<br>of<br>Credit | \$25.0 Million<br>Term<br>Loan | \$2.6 Million<br>Term<br>Loan | Acquisition<br>Term Notes | Total<br>Principal<br>Payments |
|--|-----------------------------------|--------------------------------|-------------------------------|---------------------------|--------------------------------|
| 2016   | \$                                | \$ 3,571                       | \$ 160                        | \$ 685                    | \$ 4,416                       |
| 2017   |                                   | 3,571                          | 160                           | 150                       | 3,881                          |
| 2018   |                                   | 3,572                          | 160                           |                           | 3,732                          |
| 2019   |                                   | 3,572                          | 160                           |                           | 3,732                          |
| 2020   |                                   | 1,786                          | 1,120                         |                           | 2,906                          |
| Total scheduled principal payments                               | \$                                | \$ 16,072                      | \$ 1,760                      | \$ 835                    | \$ 18,667                      |

**8. Accumulated Other Comprehensive Income and Hedging Activities**

**Accumulated Other Comprehensive Income** Our Accumulated Other Comprehensive Income ( AOCI ) consists of unrealized foreign currency translation adjustments and activities associated with cash flow hedges related to our interest rate swaps described in greater detail below. The following is a summary of changes in AOCI by component for the years ended December 31, 2015, 2014 and 2013 (all amounts are net of tax):

|  | Gains (losses)<br>on Cash Flow<br>Hedge | Foreign<br>Currency<br>Items | Total |
|--|---|------------------------------|-------|
| Balance of AOCI, January 1, 2013   | \$                                      | \$                           | \$    |
| Other comprehensive income (loss) before reclassifications                       | (123)                                   |                              | (123) |
| Reclassification adjustment for net (gains) losses included in net income (loss) | 39                                      |                              | 39    |
| Net other comprehensive income (loss)  | (84)                                    |                              | (84)  |
| Balance of AOCI, December 31, 2013   | (84)                                    |                              | (84)  |
| Other comprehensive income (loss) before reclassifications                       | (157)                                   |                              | (157) |
| Reclassification adjustment for net (gains) losses included in net income (loss) | 164                                     |                              | 164   |
| Net other comprehensive income (loss)  | 7                                       |                              | 7     |
| Balance of AOCI, December 31, 2014   | (77)                                    |                              | (77)  |

|  |         |        |         |
|--|---------|--------|---------|
| Other comprehensive income (loss) before reclassifications                       | (105)   | (9)    | (114)   |
| Reclassification adjustment for net (gains) losses included in net income (loss) | 127     |        | 127     |
| Net other comprehensive income (loss)  | 22      | (9)    | 13      |
| Balance of AOCI, December 31, 2015   | \$ (55) | \$ (9) | \$ (64) |

**Hedging Activities** In July 2013, we entered into two forward-starting interest rate swap contracts to manage interest rate risk associated with a portion of our \$25.0 million Term Loan floating rate debt (see Note 7). The interest

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rate swaps effectively converted 80% of our \$25.0 million floating rate term loan to a fixed rate term loan bearing interest at the rate of 3.73%. The notional amount of the interest rate swaps at December 31, 2015 was \$12.9 million. The termination dates of the swap contracts and the maturity date of the \$25.0 million Term Loan are both June 30, 2020.

In accordance with ASC 815, *Derivatives and Hedging*, we have designated both of our interest rate swaps as cash flow hedges of the interest payments due on our floating rate debt. To qualify for designation as a cash flow hedge, specific criteria must be met and the appropriate documentation maintained. Hedging relationships are established pursuant to our risk management policies and are initially and regularly evaluated to determine whether they are expected to be, and have been, highly effective hedges. For our interest rate swap contracts designated as a cash flow hedge of interest on our floating rate debt, the effective portion of the change in fair value of the derivative is reported in other comprehensive income and reclassified into earnings in the period in which the hedged item affects earnings. Any amounts excluded from the effectiveness calculation and any ineffective portion of the change in fair value of the derivative are recognized currently in earnings.

The interest rate swaps are measured at Level 2 fair value on a recurring basis, using standard pricing models and market-based assumptions for all significant inputs, such as LIBOR yield curves. The fair value of the interest rate swap contracts included within our consolidated balance sheets as of December 31, 2015 and 2014, are as follows:

| Derivative designated as hedging instrument: | Balance Sheet | December 31, |      | Balance Sheet               | December 31, |        |
|--|---------------|--------------|------|-----------------------------|--------------|--------|
|  | Location      | 2015         | 2014 | Location                    | 2015         | 2014   |
| Interest rate swaps                          | Other assets  | \$           | \$   | Other long-term liabilities | \$ 109       | \$ 146 |

The following tables present the effects of the interest rate swaps designated as cash flow hedges on our consolidated statements of operations and AOCI:

| AOCI Component                   | Amounts Reclassified from AOCI into income |        |       | Affected Line Item in the Consolidated Statements of Income |
|----------------------------------|--|--------|-------|---|
|                                  | Year Ended December 31,                    |        |       |   |
|                                  | 2015                                       | 2014   | 2013  |   |
| Gain (loss) on cash flow hedges: |  |        |       |   |
| Interest rate swaps              | \$ 215                                     | \$ 265 | \$ 73 | Interest expense  |
|                                  | (88)                                       | (101)  | (34)  | Income tax expense (benefit)                                |
|                                  | \$ 127                                     | \$ 164 | \$ 39 | Net of tax  |

| AOCI Component                               | Amount of gain (loss) recognized in AOCI |          |          |
|--|--|----------|----------|
|  | Year Ended December 31,                  |          |          |
|  | 2015                                     | 2014     | 2013     |
| Gain (loss) on cash flow hedges:             |  |          |          |
| Unrealized gain (loss) - Interest rate swaps | \$ (178)                                 | \$ (254) | \$ (230) |
| Tax effect                                   | 73                                       | 97       | 107      |

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|                          |          |          |          |
|--------------------------|----------|----------|----------|
| Gain (loss) - Net of tax | \$ (105) | \$ (157) | \$ (123) |
|--------------------------|----------|----------|----------|

We did not realize any ineffectiveness related to our cash flow hedges during the years ended December 31, 2015, 2014 and 2013.

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We had a capital lease with SunTrust Equipment Finance and Leasing (as lessor) 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 repaid under the terms of the lease with monthly principal and interest payments of \$0.1 million over a period of 84 months. At the expiration of the term of the lease in December 2015, we exercised our option to purchase the equipment for \$1 dollar. The lease was guaranteed by us under an equipment lease guaranty. The lease and the lease guaranty constituted permitted indebtedness under our credit agreement.

Proceeds of the lease financing were used to finance capital investments in equipment for our recurring revenue distributed generation projects. We accounted for the lease financing as a capital lease in our consolidated financial statements. The balance of our remaining capital lease obligation was \$0 and \$1.0 million at December 31, 2015 and 2014, respectively.

**10. 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.

**Stock Plans** We have granted stock options, restricted stock awards, restricted stock units and performance unit 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 0.6 million 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. On June 19, 2012, at our 2012 Annual Meeting of Stockholders, our stockholders adopted and approved an amendment and restatement of the 2008 Stock Incentive Plan, including an amendment to increase the number of shares of our common stock authorized thereunder by 1.4 million shares to a total of 2.0 million shares. The 2008 Stock Plan replaced our 1998 Stock Plan.

**Stock Options** Net income (loss) for the years ended December 31, 2015, 2014, and 2013 includes \$0.3 million, \$0.2 million, and \$0.2 million, respectively, of pre-tax compensation costs related to outstanding stock options. The after-tax compensation cost of outstanding stock options for the years ended December 31, 2015, 2014 and 2013 was \$0.1 million, \$0.1 million, and \$0.1 million, respectively. All of the stock option compensation expense is included in general and administrative expenses in the accompanying consolidated statements of operations.



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A summary of option activity for the year ended December 31, 2015 is as follows:

|                                | Shares | Weighted<br>Average<br>Exercise Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term (years) | Aggregate<br>Intrinsic<br>Value |
|--------------------------------|--------|---------------------------------------|---|---------------------------------|
| Balance, December 31, 2014     | 519    | \$ 9.12                               |   |                                 |
| Granted                        | 36     | 12.90                                 |   |                                 |
| Exercised                      | (125)  | 6.79                                  |   |                                 |
| Expired                        |        |                                       |   |                                 |
| Forfeited                      | (8)    | 7.32                                  |   |                                 |
| Balance, December 31, 2015     | 422    | \$ 10.16                              | 5.99  | \$ 2,212                        |
| Exercisable, December 31, 2015 | 238    | \$ 9.39                               | 4.17  | \$ 1,396                        |

A summary of option activity for the year ended December 31, 2014 is as follows:

|                                | Shares | Weighted<br>Average<br>Exercise Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term (years) | Aggregate<br>Intrinsic<br>Value |
|--------------------------------|--------|---------------------------------------|---|---------------------------------|
| Balance, December 31, 2013     | 669    | \$ 8.59                               |   |                                 |
| Granted                        | 110    | 10.35                                 |   |                                 |
| Exercised                      | (244)  | 8.53                                  |   |                                 |
| Expired                        |        |                                       |   |                                 |
| Forfeited                      | (16)   | 4.58                                  |   |                                 |
| Balance, December 31, 2014     | 519    | \$ 9.12                               | 5.42  | \$ 1,801                        |
| Exercisable, December 31, 2014 | 312    | \$ 8.11                               | 3.20  | \$ 1,279                        |

A summary of option activity for the year ended December 31, 2013 is as follows:

|                            | Shares | Weighted<br>Average<br>Exercise Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term (years) | Aggregate<br>Intrinsic<br>Value |
|----------------------------|--------|---------------------------------------|---|---------------------------------|
| Balance, December 31, 2012 | 838    | \$ 7.21                               |   |                                 |

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|                                |       |    |       |      |          |
|--------------------------------|-------|----|-------|------|----------|
| Granted                        | 70    |    | 14.97 |      |          |
| Exercised                      | (220) |    | 5.50  |      |          |
| Expired                        |       |    |       |      |          |
| Forfeited                      | (19)  |    | 7.00  |      |          |
| Balance, December 31, 2013     | 669   | \$ | 8.59  | 4.55 | \$ 5,747 |
| Exercisable, December 31, 2013 | 515   | \$ | 8.17  | 3.36 | \$ 4,636 |

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The weighted average grant date fair value of the options granted during the years ended December 31, 2015, 2014 and 2013 was \$5.30, \$4.70 and \$6.04, respectively. The fair value of the stock options granted during the years ended December 31, 2015, 2014 and 2013 was measured using the Black-Scholes valuation model with the following assumptions:

|                                 | Year Ended December 31, |       |       |
|---------------------------------|-------------------------|-------|-------|
|                                 | 2015                    | 2014  | 2013  |
| Expected stock price volatility | 45.4%                   | 46.9% | 44.5% |
| Risk free interest rate         | 1.55%                   | 1.56% | 1.45% |
| Annual dividends                | \$                      | \$    | \$    |
| Expected life (years)           | 5.0                     | 6.1   | 5.0   |

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%. At December 31, 2015 and 2014, there was \$0.8 million and \$0.8 million, respectively, of total unrecognized compensation costs related to stock options. These costs at December 31, 2015 are expected to be recognized over a weighted average period of approximately 4.1 years.

The total intrinsic value of stock options exercised during the years ended December 31, 2015, 2014 and 2013 was \$0.7 million, \$3.4 million and \$1.8 million, respectively. Cash received from stock option exercises for the years ended December 31, 2015, 2014 and 2013 was \$0.8 million, \$2.1 million and \$1.2 million, respectively. Because of cumulative net operating losses, there was no tax benefit recognized on the 2015, 2014 and 2013 stock option exercises. The total grant date fair value of stock options vested during the years ended December 31, 2015, 2014 and 2013 was \$0.2 million, \$0.2 million and \$0.1 million, respectively.

**Restricted Stock Awards and Restricted Stock Units** Net income (loss) for the years ended December 31, 2015, 2014 and 2013 includes \$2.1 million, \$1.8 million and \$0.4 million, respectively, of pre-tax compensation costs related to the vesting of outstanding restricted stock awards and restricted stock units granted to directors and employees. All of the restricted stock award compensation expense during the years ended December 31, 2015, 2014 and 2013 is included in general and administrative expenses in the accompanying consolidated statements of operations. A summary of restricted stock award activity for the three years ended December 31, 2015 is as follows:

|                            | Unvested<br>Restricted<br>Shares | Weighted<br>Average<br>Grant Date<br>Fair Value |
|----------------------------|----------------------------------|---|
| Balance, January 1, 2013   | 100                              | \$ 5.62   |
| Granted                    | 346                              | 15.52   |
| Vested                     | (59)                             | 6.24  |
| Forfeited                  |                                  |   |
| Balance, December 31, 2013 | 387                              | 14.37   |
| Granted                    | 246                              | 20.48   |
| Vested                     | (43)                             | 9.02  |
| Forfeited                  | (11)                             | 23.44   |

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|                            |      |          |
|----------------------------|------|----------|
| Balance, December 31, 2014 | 579  | 17.20    |
| Granted                    | 30   | 12.47    |
| Vested                     | (50) | 10.16    |
| Forfeited                  | (12) | 23.44    |
| Balance, December 31, 2015 | 547  | \$ 17.44 |

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A summary of restricted stock unit activity for the year ended December 31, 2015 is as follows:

|                            | <b>Unvested<br/>Restricted<br/>Stock Units</b> | <b>Weighted<br/>Average<br/>Grant Date<br/>Fair<br/>Value</b> |
|----------------------------|--|---|
| Balance, January 1, 2015   |  | \$  |
| Granted                    | 11   | 15.49   |
| Vested                     | (6)  | 15.49   |
| Forfeited                  |  |   |
| Balance, December 31, 2015 | 5  | \$ 15.49  |

There were no restricted stock units issued or outstanding at or during the years ended December 31, 2014 and 2013.

Restricted shares and restricted stock units are subject to forfeiture and cannot be sold or otherwise transferred until they vest. If the holder of the restricted shares or stock units 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 and restricted stock units 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 generally vest over five or ten years. All restricted and unvested shares automatically vest upon a change in control.

The fair value of unvested restricted shares and restricted stock units is amortized on a straight-line basis over the respective vesting period. At December 31, 2015, the balance of unrecognized compensation cost related to unvested restricted shares was \$6.5 million, which is expected to be recognized over a weighted average period of approximately 4.3 years. At December 31, 2015, the balance of unrecognized compensation cost related to unvested restricted stock units was \$0.1 million, which is expected to be recognized over a weighted average period of approximately 0.5 years.

**Performance Units** Net income (loss) for the year ended December 31, 2015 and 2014 includes \$0.2 million and \$0.1 million, respectively, of pre-tax compensation costs related to outstanding performance units based on the number of awards that we expect will vest over the requisite service period and the probable outcome of the associated performance condition. All of the performance unit compensation expense during the years ended December 31, 2015 and 2014 is included in general and administrative expense in the accompanying consolidated statements of operations.

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A summary of performance unit award activity for the years ended December 31, 2015 and 2014 is as follows:

|                                       | <b>Unvested<br/>Performance<br/>Units</b> | <b>Weighted<br/>Average<br/>Grant Date<br/>Fair<br/>Value</b> |
|---------------------------------------|---|---|
| Balance, January 1, 2014              |   | \$  |
| Granted                               | 17  | 20.57   |
| Vested                                |   |   |
| Incremental performance shares vested |   |   |
| Forfeited                             |   |   |
| Balance, December 31, 2014            | 17  | \$ 20.57  |
| Granted                               | 28  | 12.30   |
| Vested                                |   |   |
| Incremental performance shares vested |   |   |
| Forfeited                             |   |   |
| Balance, December 31, 2015            | 45  | \$ 15.39  |

There were no performance unit awards issued or outstanding at or during the year ended December 31, 2013.

The performance units outstanding at December 31, 2015 obligate the Company to issue a variable number of shares of its common stock in the event certain cumulative earnings per share performance thresholds are met. At December 31, 2015, the number of shares issuable upon attainment of performance thresholds ranges from 23 thousand to 68 thousand shares. The fair value of the performance units are being amortized on a straight-line basis over the respective vesting periods. At December 31, 2015, the balance of unrecognized compensation cost related to outstanding performance units was \$0.4 million, which is expected to be recognized over a weighted average period of approximately 1.7 years.

At the effective time of the Merger (see Note 2), subject to receipt of required shareholder and regulatory approvals, and meeting specified customary closing conditions, (i) all outstanding stock options will be deemed to be fully vested and converted into the right to receive a cash payment equal to the excess of the merger consideration over the exercise prices of such stock options, (ii) all outstanding restricted shares and restricted stock units will be deemed to be fully vested and converted into the right to receive the merger consideration, except for certain unvested restricted shares held by our Chief Executive Officer, which will be converted into a stock award relating to shares of Southern Company, and (iii) all performance share units payable in shares of Common Stock will be deemed vested at the target level of achievement and converted into the right to receive the merger consideration.

**11. Commitments and Contingencies**

**Securities Class Action and Related Litigation** On May 22, 2014, a putative securities class action lawsuit was filed against us and certain of our executive officers in the United States District Court for the Eastern District of North Carolina. Subsequently, in May and in July 2014, two additional purported securities class action lawsuits were filed

against the same defendants in the United States District Courts, one in the Eastern District of North Carolina and the other in the Western District of North Carolina. On October 10, 2014, these lawsuits were consolidated in the United States District Court for the Eastern District of North Carolina, and a lead plaintiff was appointed. As consolidated, the lawsuit was filed on behalf of all persons or entities that purchased our common stock during a purported class period from August 8, 2013 through May 7, 2014, which is the longer of the two different purported class periods used in the pre-consolidation lawsuits. A consolidated amended complaint was filed on December 29, 2014. The action alleges that certain statements made by the defendants during the class period violated federal securities laws and seeks damages in an unspecified amount.

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We filed a motion to dismiss the amended complaint on February 26, 2015, which the court granted on September 15, 2015, with leave for the plaintiff to file an amended complaint. On October 16, 2015, the plaintiff filed a second amended consolidated class action complaint, with similar allegations over the same class period. On November 23, 2015, we filed a motion to dismiss the second amended complaint, and the briefing on that motion concluded on February 5, 2016. We cannot provide any assurance as to when the court will rule on our motion to dismiss the second amended complaint or whether our motion will be granted, and even if granted whether the complaint will be dismissed with prejudice or appealed.

On August 15, 2014, a shareholder derivative complaint was filed against certain of our executive officers and each of our directors during the class period in the United States District Court for the Eastern District of North Carolina. The complaint alleges breach of fiduciary duty, waste of corporate assets and unjust enrichment by the named officers and directors in connection with substantially the same events as set forth in the class action lawsuit, seeking damages in an unspecified amount. On November 26, 2014, based on mutual agreement of the parties to the lawsuit, the court ordered that proceedings under the complaint be stayed until resolution of the securities class action litigation.

While we believe that we have substantial legal and factual defenses to the claims in the class action and we are pursuing these defenses vigorously the outcome of this litigation is difficult to predict and quantify, and the defense against such claims could be costly. In addition, we have various insurance policies related to the risk associated with our business, including directors and officers liability insurance policies. However, there is no assurance that we will be successful in our defense of the securities class action, and there is no assurance that our insurance coverage will be sufficient or that our insurance carriers will cover all claims in that litigation. If we are not successful in our defense of the claims asserted in the securities class action and the claims are not covered by insurance or exceed our insurance coverage, we may have to pay damage awards, indemnify our officers and directors from damage awards that may be entered against them and pay the costs and expenses incurred in defense of, or in any settlement of, such claims.

While the company is only a nominal defendant in the shareholder derivative litigation, it could be obligated to indemnify and/or to pay an advancement of fees and costs incurred by our officers and directors in their defense of the litigation.

Any such payments or settlement arrangements in these current lawsuits or related litigation or proceedings could be significant and have a material adverse effect on our business, financial condition, results of operations, or cash flows if the claims are not covered by our insurance carriers or if damages exceed the limits of our insurance coverage. Furthermore, regardless of the outcome of these claims, defending the litigation itself could result in substantial costs and divert management's attention and resources, which could have a material adverse effect on our business, operating results, financial condition and ability to finance our operations.

The ultimate outcome of these proceedings cannot be accurately predicted due to the inherent uncertainty of litigation and the litigation is at a very early stage. Other than an immaterial amount for legal expenses, we have not recognized any costs for the securities class action as we do not believe, based upon current information, that a loss relating to these matters is probable, or that an estimate of a range of potential loss relating to these matters, can reasonably be made.

***SEC Informal Inquiry*** The SEC is conducting an informal inquiry that appears to be focused on our interpretation and application of the FASB's Accounting Standards Codification (ASC) Topic 280, Segment Reporting (ASC 280), in regards to our identification of operating and reportable segments since 2012, but may be broader in scope. We are cooperating with the SEC in this matter, including consultation with the Office of Chief Accountant of the SEC, and in connection therewith have restated our segment reporting (see Note 14) for the years ended December 31, 2014, 2013 and 2012 to correct a segment reporting error and conform to our December 31, 2015 segment reporting. There

is no assurance that the scope of this inquiry is currently limited to segment reporting or that it will not be expanded in the future. In addition, the outcome of this inquiry could be unfavorable to us and adversely affect our business, financial condition or operating results.

***Performance Bonds and Letters of Credit*** In the ordinary course of business, we are required by certain customers to post surety or performance bonds or letters of credit in connection with services that we provide to them. These bonds and letters of credit provide a guarantee to the customer that we will perform under the terms of a contract

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and that we will pay subcontractors and vendors. If we fail to perform under a contract or to pay subcontractors and vendors, the customer may demand that the surety, in the case of a performance bond, or our lenders, in the case of a letter of credit, make payments or provide services under the bond. We must reimburse the surety or our lenders for any expenses or outlays they incur. We have not been required to make any reimbursements to our sureties for bond-related costs, and we do not currently expect that we will have to fund significant claims under our surety arrangements in the foreseeable future. As of December 31, 2015, we had approximately \$450.7 million in surety bonds outstanding. Based upon the current status of our contracts and projects, we estimate our exposure on these surety bonds was approximately \$196.1 million at December 31, 2015.

***Employee Matters*** 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. These claims are inherently difficult to predict, and therefore we generally cannot provide any assurance of the outcome of claims. We do not have any specific claims outstanding at this time.

***Product Performance and Component Parts Matters*** From time to time, in the ordinary course of business we encounter issues with component parts that affect the performance of our distributed generation systems, switchgear systems, utility infrastructure products, engines, generators, alternators, breakers, fuel systems, boilers, chillers, LED and other lighting products, electrical circuit boards, power drivers, photovoltaic energy systems, inverters, 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. In addition, 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 which exposes us to performance risks that may not be covered by warranties, or may invalidate warranties or performance certifications. 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. As a result, we can encounter situations in which the responsibility for the performance issues is unclear, or difficult to ascertain. Because of our strong focus on customer satisfaction, we often take on the cost of repairs in excess of our contractual obligations. Additionally, the outcome of any performance disputes or 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. As a result, there is no assurance we will not be adversely affected by these, or other performance issues with key parts and components. Moreover, performance issues may not be 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 5-10% 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.

We have experienced performance issues with two types of component parts, in particular, which we have made progress in correcting or mitigating, but which continue to represent operational and financial risks to our business: 1) a component we incorporated into a distributed generation system configuration installed in many of the systems deployed for our customers has been deemed to invalidate the generator manufacturer's warranty and may cause other customer issues and costs, and 2) generators we purchased from a certain supplier have had performance issues in a system we own,

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and for which we have a performance-based recurring revenue contract that is dependent on the system's successful operation. In both of these matters, we have actively worked to correct and resolve the performance issues and have made progress in mitigating certain elements of their risk, but the risk is not eliminated. Given that we continue to have risk related to these matters, and the inherent uncertainty in assessing and quantifying the costs and certainty regarding their resolution, we are unable to estimate the potential negative impacts from these two particular items, if any, in addition to other component part performance issues discussed above. In addition, we have not recorded any specific adjustment to our warranty reserve for these particular performance issues, other than our regular reserves for minor repairs, as the estimated cost, if any, of fulfilling our obligations for these matters within a possible range of outcomes is not determinable as of this date.

***Utility-Scale Solar Project Contract Matters*** In July 2014, we entered into two Engineering, Procurement and Construction Agreements ( EPC Contracts ) with Georgia Power Company, a large investor-owned utility customer (the Utility ) and in July 2015, we entered into a third EPC Contract with the Utility, which may be terminated or modified as discussed below. Each of these EPC Contracts relates to a similarly sized utility-scale solar distributed generation project that will be performed for the Utility for the benefit of the Utility's customers. The two July 2014 EPC Contracts are currently expected to generate a total of approximately \$120 million in revenues, of which we have already recognized \$61.2 million through December 31, 2015, and we expect these projects to be completed over the course of 2016. We also expect that these projects, which are large in scale and carry significantly lower gross profit margins as a percentage of revenues compared to traditional projects of this type, will carry single digit gross margins as a percentage of revenues. Thus, we expect the impact of these contracts to be dilutive to our consolidated gross margins as a percentage of revenues, while being accretive to our net income and earnings per share. The scheduled substantial completion and placed in service dates of the two July 2014 EPC Contracts range from August 1, 2016 to October 1, 2016.

We were previously notified by Georgia Power that the size and scope of the solar project contemplated by the July 2015 EPC Contract may be reduced, due to a change in the utility customer's requirements or could be terminated entirely. Accordingly, we have been in discussions with Georgia Power on the status of the project and we now believe that the July 2015 EPC Contract may be terminated entirely. As of March 14, 2016, the July 2015 EPC Contract has not been amended, restated or terminated, and the underlying solar project has not been definitively modified. In November 2015, based on the information available as of that time, we estimated that the associated revenues from the project would be reduced from the initial \$85 million project size to approximately \$60 million. Based on more recent information we have received, we currently estimate that no revenue will be generated by the July 2015 EPC Contract.

The EPC Contracts, which are virtually identical in rights and obligations and differ primarily in project descriptions, provide for customary covenants, representations, warranties and indemnities to the Utility. The EPC Contracts also include terms requiring us to provide performance guarantees and indemnification to the Utility under certain circumstances, as well as provisions requiring us to pay the Utility liquidated damages upon the occurrence of certain events, including certain delays in substantial completion and when the system is placed in service. The aggregate limit on our liability to the Utility for liquidated damages related to delays under the EPC Contracts ranges from approximately \$24 million to approximately \$34 million per contract, and is \$82 million in total, although those amounts will be reduced if the project from the July 2015 EPC Contract is terminated or modified to a lower size. We could have additional liabilities to the Utility for any breaches of our covenants, representations or warranties in addition to these potential liquidated damages. The EPC Contracts also contain typical events of default, including material breaches of the EPC Contracts after notice and cure periods and defaults relating to bonding and surety failures. The EPC Contracts may be terminated by us upon an event of default by the Utility, in which case we would be entitled to the payment for work performed and for actual costs incurred. We also provide a warranty on each project for three years after substantial completion of the project.

In addition, the solar projects covered by the EPC Contracts are subject to bonding requirements. In connection with these requirements, we have obtained, for the benefit of the Utility, bonding arrangements in the aggregate amount of approximately \$205 million at December 31, 2015 for the three EPC Contracts. Our solar panel manufacturer has provided a supply bond to us in the amount of approximately \$75.3 million that backstops the on-time delivery of quality panels.

***Other Matters*** From time to time, we are also involved in a variety of other claims, lawsuits, investigations, actions and other legal proceedings arising in the ordinary course of our business, including actions with respect to labor

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and employment, taxes, breach of contract, professional liability and other matters. We intend to vigorously defend all claims against us, and pursue our full legal rights in cases where we have been harmed. 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.

**Operating Leases** We lease business facilities, equipment and vehicles under operating lease agreements which specify minimum rentals. Many of these leases have renewal provisions. Lease expense for the years ended December 31, 2015, 2014 and 2013 totaled \$8.7 million, \$7.7 million and \$5.9 million, respectively. Future minimum lease payments under non-cancelable operating leases having an initial or remaining term of more than one year are as follows:

| Year Ending December 31:      | Scheduled<br>Payments |
|-------------------------------|-----------------------|
| 2016                          | \$ 6,300              |
| 2017                          | 4,998                 |
| 2018                          | 3,670                 |
| 2019                          | 2,557                 |
| 2020 and thereafter           | 2,294                 |
| Total minimum rental payments | \$ 19,819             |

**Employee Benefit Plan** We have a defined contribution savings and investment plan (the 401(k) Plan ) under Section 401(k) of the Internal Revenue Code. All employees age 18 or older are eligible to participate in the 401(k) Plan. The 401(k) Plan provides for discretionary contributions by employees of up to 80% of their eligible compensation. In each of the three years ended December 31, 2014, we made discretionary matching contributions of 50% of participant contributions, subject to a maximum of 6% of each participant's eligible compensation. Our 401(k) Plan expense for the years ended December 31, 2015, 2014 and 2013 was \$1.5 million, \$1.0 million, and \$0.8 million, respectively.

**Deferred Compensation Plan** We have a deferred compensation arrangement with Sidney Hinton, our President and Chief Executive Officer, that provides for lifetime payments by us to him of \$0.2 million per year, in monthly installments, upon his retirement. The deferred compensation payments under the plan vested on August 15, 2012. In 2007, we purchased a fixed deferred annuity contract through John Hancock Annuities in order to fund our expected obligation under the plan. In 2013, we determined that the John Hancock annuity did not protect the Company against all uncertainties and risks related to funding the future benefits owed under the arrangement. Accordingly, in December 2013, we cancelled the John Hancock annuity and transferred the accumulated balance in the amount of \$2.5 million, together with an additional cash payment of \$0.6 million, to an annuity offered through New York Life. As a result of this transaction, we incurred an expense of \$0.5 million during the fourth quarter of 2013.

The New York Life annuity guarantees our obligations under the deferred compensation arrangement, and is not subject to interest rate or other market risk. The balance of the New York Life annuity at December 31, 2015 and 2014 is \$3.1 million, measured at historical cost. The restricted annuity contract balances are included in the accompanying consolidated balance sheet under other assets. We are accounting for the New York Life annuity at historical cost as the fair value is not readily measureable from period to period, due to the nature of the investment. We measured the John Hancock annuity at fair value until it was terminated in December 2013 and recorded the appreciation in value as

interest income in our consolidated statements of operations. For fair value measurement purposes, we classified the John Hancock annuity as a Level 3 investment in the fair value hierarchy.

We have accrued our obligation under the deferred compensation agreement over a period of eight years. The liability for the deferred compensation obligation at December 31, 2015 and 2014 is \$3.1 million and \$2.9 million, respectively, and is included in the accompanying consolidated balance sheet under other long-term liabilities. The accompanying consolidated statements of operations includes general and administrative expense in the amount of \$0.2 million, \$0.3 million and \$0.8 million for the years ended December 31, 2015, 2014 and 2013, respectively, associated with the deferred compensation plan. Our obligation under the deferred compensation agreement is fully accrued at December 31, 2015.

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**Employment Agreements** We have an employment and non-competition agreement with Sidney Hinton, our President and Chief Executive Officer (the Hinton Employment Agreement ). As amended, this employment agreement provides for base salary, bonus payments under our executive incentive compensation plan, grants of restricted shares of our common stock or performance units, severance benefits depending on the circumstances of the employee termination, and disability insurance policies. In addition, the Hinton Employment Agreement also provides for a \$5.0 million life insurance policy and the deferred compensation payments discussed above. The Hinton Employment Agreement is currently in a one-year renewal period that ends December 31, 2016, and is subject to additional automatic successive one-year renewal periods unless either we or Mr. Hinton gives notice of termination.

We also have employment agreements with certain other executive officers and with other key employees which provide for base salary, restricted stock grants, incentive compensation, change-in-control provisions, non-competition provisions, severance arrangements, and other normal employment terms and conditions.

**12. Income Taxes**

We record a deferred tax liability or asset (net of a valuation allowance) in our financial statements by applying the provisions of applicable laws to measure the deferred tax consequences of temporary differences that will result in net taxable or deductible amounts in future years as a result of events recognized in the financial statements in the current or preceding years.

The income tax expense (benefit) included in the accompanying consolidated statements of operations represents changes in our net deferred tax assets, federal income tax and credits, foreign income tax in Canada, state income taxes in various state jurisdictions in which we have taxable activities and changes in estimated tax effects of uncertain tax positions that we have taken. The following table summarizes our income tax expense for the years ended December 31:

|   | <b>Year Ended December 31,</b> |                   |                 |
|---|--------------------------------|-------------------|-----------------|
|   | <b>2015</b>                    | <b>2014</b>       | <b>2013</b>     |
| Current:                                  |                                |                   |                 |
| Federal                                   | \$ 118                         | \$ 52             | \$ 123          |
| Foreign                                   | 90                             |                   |                 |
| State                                     | 85                             | 205               | 256             |
| <b>Total current</b>                      | <b>293</b>                     | <b>257</b>        | <b>379</b>      |
| Deferred:                                 |                                |                   |                 |
| Federal                                   | 3,333                          | (3,611)           | 3,122           |
| Foreign                                   |                                |                   |                 |
| State                                     | 432                            | (744)             | 171             |
| <b>Total deferred</b>                     | <b>3,765</b>                   | <b>(4,355)</b>    | <b>3,293</b>    |
| <b>Total income tax expense (benefit)</b> | <b>\$ 4,058</b>                | <b>\$ (4,098)</b> | <b>\$ 3,672</b> |



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Total income tax expense (benefit) differs from the amount computed by applying the statutory federal income tax rate to income (loss) before income tax expense (benefit). The following table reconciles such differences for the years ended December 31:

|                                     | <b>Year Ended December 31,</b> |             |             |
|-------------------------------------|--------------------------------|-------------|-------------|
|                                     | <b>2015</b>                    | <b>2014</b> | <b>2013</b> |
| Federal taxes at statutory rate     | 34.0%                          | 34.0%       | 34.0%       |
| State taxes, net of federal benefit | 7.2%                           | 2.2%        | 5.1%        |
| Foreign rate differential           | (0.1)%                         | %           | %           |
| Permanent items                     | 1.6%                           | 1.0%        | 4.6%        |
| True ups and other adjustments      | (1.7)%                         | (0.2)%      | 2.8%        |
| Effective income tax rate           | 41.0%                          | 37.0%       | 46.5%       |

The components of our federal and state deferred tax assets and liabilities at December 31, 2015 and 2014 are as follows:

|   | <b>December 31,</b> |             |
|---|---------------------|-------------|
|   | <b>2015</b>         | <b>2014</b> |
| <b>Deferred tax assets:</b>   |                     |             |
| Net operating loss carryforwards  | \$ 8,242            | \$ 11,414   |
| Tax credit carryforwards  | 479                 | 371         |
| Allowance for bad debts   | 188                 | 178         |
| Warranty reserve  | 588                 | 603         |
| Equity compensation   | 1,370               | 861         |
| Other   | 1,252               | 1,792       |
| Gross deferred tax assets   | 12,119              | 15,219      |
| <b>Deferred tax liabilities:</b>  |                     |             |
| Differences between book and tax basis of property, equipment and intangible assets | 14,370              | 13,732      |
| Other   | 660                 | 627         |
| Gross deferred tax liabilities  | 15,030              | 14,359      |
| Net deferred tax asset (liability)  | (2,911)             | 860         |
| Valuation allowance   |                     |             |
| Deferred tax assets (liabilities), net  | \$ (2,911)          | \$ 860      |

The balance of our deferred tax assets (liabilities) at December 31, 2015 and December 31, 2014 includes the effects of \$0.4 million and \$0.5 million, respectively, of uncertain tax position liabilities that are offset against our deferred tax asset in accordance with the provision of ASU No. 2013-11.



The acquisitions of the ESCO business in 2015 and the Mission Critical Energy Services business and the Electrical Contracting business during 2014 (see Note 5) were asset purchases that created identified intangible assets that will result in future tax consequences attributable to amortization. There were no material temporary differences between the financial statement carrying value and their respective tax bases upon acquisition and, accordingly, there are no tax effects included in the deferred tax asset and liabilities as of December 31, 2015 or 2014.

The acquisition of Solais in April 2013 (see Note 5) included approximately \$5.0 million of net operating loss carryforwards available to be utilized against our future taxable income, subject to an annual limitation in the amount that can be utilized in any single year. In addition, the acquisition of Solais resulted in a noncurrent deferred tax liability associated with estimated future tax consequences attributable to temporary differences between the financial statement carrying amounts of intangible assets acquired and their respective tax bases. The tax effects of the Solais acquisition described above are included in our deferred tax assets and liabilities at December 31, 2015 and 2014, but they had no effect on our income tax expense for the year ended December 31, 2013.

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The deferred tax asset for net operating loss carry-forwards at December 31, 2015 and 2014 does not include \$1.4 million and \$1.2 million, respectively, that relates to the tax effect of stock options for which the benefit will not be recognized in stockholders' equity until the period that the amounts decrease taxes payable. The related \$3.5 million and \$3.2 million tax deductions at December 31, 2015 and 2014, respectively, are included in the unused net operating loss below.

At December 31, 2015, we had unused federal net operating losses to carry forward against future years' taxable income of \$34.3 million and various state carry-forwards that expire in various amounts from 2022 to 2036.

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction and various foreign state jurisdictions. With few exceptions, we are no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years prior to 2011. We are not currently under examination for any federal or state and local income tax jurisdictions where we file tax returns. The Company apportions certain items of income between affiliates and some of these allocations may be subject to review by state tax authorities.

The following is a reconciliation of the beginning and ending amounts of unrecognized state income tax benefits:

|  |        |
|--|--------|
| Balance at January 1, 2013   | \$ 882 |
| Additions as a result of tax positions taken related to the current year | 204    |
| Reductions from lapse of statute of limitations                          | (192)  |
| Balance at December 31, 2013   | 894    |
| Additions as a result of tax positions taken related to the current year |        |
| Reductions for tax positions of prior year                               | (164)  |
| Reductions from lapse of statute of limitations                          | (247)  |
| Balance at December 31, 2014   | 483    |
| Additions as a result of tax positions taken related to the current year |        |
| Reductions for tax positions of prior year                               |        |
| Reductions from lapse of statute of limitations                          | (105)  |
| Balance at December 31, 2015   | \$ 378 |

We believe nearly all of our unrecognized tax benefits would, if recognized, affect our effective tax rate.

We recognize interest and penalties related to our unrecognized tax benefits as a component of income tax expense or benefit. As of December 31, 2015, we had sufficient tax attributes to offset the unrecognized tax benefits and, as such, no interest or penalties are currently accrued. The total amount of interest and penalty expense (benefit) resulting from the changes in our uncertain tax positions recognized in the accompanying consolidated statements of operations was not material during the years ended December 31, 2015, 2014 and 2013. The total amount of accumulated interest and penalties recognized in the accompanying consolidated balance sheet at December 31, 2015 and 2014 is \$0 million and \$0 million, respectively. We reasonably expect that the unrecognized tax benefit associated with our uncertain tax positions will decrease by \$0.1 million during 2016 due to the lapse of applicable statute of limitations.

**13. Capital Stock**

*NYSE Listing* On August 28, 2013, shares of our common stock commenced trading on the New York Stock Exchange under the symbol **POWR** . Prior to that date, our common stock traded on the NASDAQ Global Select Market, also under the symbol **POWR** .

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**Stock Repurchases** In December 2012, our board of directors authorized an increase of our prior existing stock repurchase program for an additional \$5.0 million in shares of our common stock and an extension of the period of the stock repurchase program for up to two years after that increase. The stock repurchase program subsequently expired in December 2014. Under the stock repurchase program, repurchases of shares were made from time to time in open market purchases. The timing and amount of any shares repurchased was determined in the discretion of management based on its evaluation of market conditions and other factors. During the year ended December 31, 2014, a total of 50 thousand shares were repurchased under the program at a gross purchase price, including commission costs, of \$0.4 million, or an average price of \$7.29 per share. During the year ended December 31, 2013, we did not repurchase any shares under the program.

In addition, from time to time we receive shares of our common stock from employees who tender their existing shares to pay all or part of the exercise price of stock options or we withhold shares of our common stock from employees to satisfy tax withholdings on the vesting of restricted shares. During the year ended December 31, 2015, we received 11 thousand shares from employees who tendered shares at a gross purchase price of \$0.1 million. During the year ended December 31, 2014, we received 6 thousand shares from employees who tendered shares a gross purchase price of \$0.1 million. During the year ended December 31, 2013, we received 8 thousand shares from employees who tendered shares at a gross purchase price of \$0.1 million. In each case, the price paid per share with respect to the shares tendered was based on the closing sales price of our common stock on the vesting date as reported on The New York Stock Exchange or the NASDAQ Global Select Market.

**Stock Offering** On August 21, 2013, we completed the public offering of 2.3 million shares of our common stock at a gross sales price of \$16.00 per share. We received net proceeds from the offering of \$34.4 million after deducting the underwriting discount and costs directly attributable to the offering. We have and continue to use the net proceeds from the sale of our shares in the offering for general corporate purposes, including but not limited to working capital, capital expenditures, acquisitions and other business opportunities.

We also granted the underwriters in the public offering a 30-day option to purchase up to 345,000 additional shares of common stock at \$16.00 per share to cover any over-allotments, which expired without being exercised.

## **14. Segment Information**

Our reportable segments are currently organized around the following products and services that we offer as part of our core business strategy:

Distributed Generation solutions;

Solar Energy solutions;

Utility Infrastructure solutions; and

Energy Efficiency solutions.

Prior to the year ended December 31, 2015, the Distributed Generation and Solar Energy operating segments, described in greater detail below, had been reported on an aggregated basis under our Distributed Generation segment. We subsequently determined that we misapplied the provisions of ASC 280, Segment Reporting, in regards to our identification and aggregation of operating and reportable segments. During the year ended December 31, 2015, we correctly identified and reported segment activity pursuant to the provisions of ASC 280, and we have restated segment information for the years ended December 31, 2014 and 2013 to correct our error and conform to our current presentation. We have also restated segment information for the year ended December 31, 2012, and have included that summarized financial information in the tables below for purposes of comparison to subsequent years.

Our Chief Operating Decision Maker ( CODM ) reviews revenues including intersegment revenues, gross profit and operating income (loss) before income taxes when evaluating segment performance and allocating resources to each segment. Accordingly, intersegment revenue is included in the segment revenues presented in the tables below and is eliminated from revenues and cost of sales in the Eliminations and Other column. The Eliminations and Other

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column also includes various expense items that are not allocated to our operating segments. These expenses include corporate overhead and corporate-wide items such as legal and professional fees as well as expense items for which we have not identified a reasonable basis for allocation. The accounting policies of the reportable segments are the same as those described in Note 3 of the notes to condensed consolidated financial statements.

### ***Distributed Generation***

Our Distributed Generation segment manufactures, installs and operates electric generation equipment on site at facilities where the power is used, including commercial, institutional and industrial operations. Our Distributed Generation systems typically utilize our proprietary PowerBlock units or, alternatively, generators sourced from major global generator manufacturers as the power plants for our systems. Our Distributed Generation systems provide a highly dependable backup power supply during power outages, and provide a more efficient and environmentally friendly source of power during high cost periods of peak power demand. These two sources of value benefit both utilities and their large customers. In addition, our Distributed Generation solutions include full turn-key electrical infrastructure design, implementation and commissioning service to data center owners.

We have developed, and since 2015 have been offering, sophisticated energy storage solutions, which support a microgrid and enable a customer to integrate solar and other generation sources with our control solutions. Our energy storage solutions, including battery storage solutions, enable the enhanced utilization of renewable energy sources, designed to improve the reliability and quality of alternative energy sources such as solar or wind power. Our typical energy storage solution is intended to help leverage a customer's renewable energy investment in a number of ways, such as by providing output firming, which stabilizes power against variances in meteorological conditions. Another advantage of our solutions is power smoothing, which improves power quality and eliminates harmonics, rapid voltage swings and frequency deviations. Our energy storage solutions can be combined with our Distributed Generation or Solar Energy systems to provide the benefits of those solutions, including peak shifting and fast and reliable standby power. In addition, our energy storage solutions are scalable, flexible and technology-neutral to meet the needs of our customers.

### ***Solar Energy***

Our Solar Energy segment engineers, procures, constructs and maintains solar power generation equipment for utilities, independent power producers, developers who sell power to utilities and industrial, commercial and institutional customers for on site power requirements. Our Solar Energy systems use photovoltaic solar panels (which we do not manufacture) to provide utilities and their customers with environmentally friendly power to augment their core power requirements.

### ***Utility Infrastructure***

Our Utility Infrastructure segment is focused on helping electric utilities design, build, upgrade and maintain infrastructure that enhances the efficiency of their grid systems.

Our largest source of revenue within our Utility Infrastructure area is our UtilityServices products and services. We have significantly expanded our UtilityServices' scope of utility relationships, customers and geography over the last few years. Our UtilityServices team provides utilities with transmission and distribution system construction and maintenance, including substation construction and maintenance, advanced metering and lighting installations, and storm restoration. In addition to providing these services directly to utilities, we also perform this work on behalf of utilities for their large industrial and institutional customers, and directly to large oil and gas companies.

Through our Encari, UtilityEngineering and PowerServices teams, we serve the engineering and consulting needs of our utility clients, broadening our offerings to our utility partners. The scope of services that we offer through UtilityEngineering includes technical engineering services for our utility partners and their customers, including design and engineering relating to virtually every element of their transmission and distribution systems, substations and renewable energy facilities. Through PowerServices, we provide management consulting services to utilities and commercial and industrial customers, including planning and quality improvement, technical studies involving reliability analysis and rate analysis, acquisition studies, accident investigations and power supply contracts and negotiations. Our Encari business, which we acquired in October 2013, provides cybersecurity consulting and regulatory compliance services to the utility industry.

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**Table of Contents****Energy Efficiency**

We deliver Energy Efficiency products and services to assist our customers in the achievement of their energy efficiency goals. We have two primary product and service offerings in our Energy Efficiency segment: LED lighting fixtures and lamps, and energy efficiency upgrades for our Energy Efficiency Services customers. Our LED lighting products are primarily focused on the utility, commercial and industrial, and retail markets, while our Energy Efficiency Services solutions are focused on serving large energy services companies, referred to as ESCOs. In the future, we plan to bring our LED lighting products to our Energy Efficiency Services customer base. In both of our Energy Efficiency segment product and service lines we deliver highly engineered product solutions and upgrades with strong value propositions that are designed to reduce energy costs, improve operations and benefit the environment.

Summarized financial information concerning our reportable segments for the years ended December 31, 2015, 2014, 2013 and 2012 is shown in the following tables. Total asset amounts at December 31, 2015 and 2014 exclude intercompany receivable balances eliminated in consolidation.

|   | Year Ended December 31, 2015 |              |                        |                   |                        | Total      |
|---|------------------------------|--------------|------------------------|-------------------|------------------------|------------|
|   | Distributed Generation       | Solar Energy | Utility Infrastructure | Energy Efficiency | Eliminations and Other |            |
| Revenues  | \$ 147,139                   | \$ 93,928    | \$ 142,058             | \$ 61,501         | \$ (925)               | \$ 443,701 |
| Cost of Sales (excluding depreciation and amortization) | 96,606                       | 86,546       | 121,062                | 39,240            | (925)                  | 342,529    |
| Gross Profit  | 50,533                       | 7,382        | 20,996                 | 22,261            |                        | 101,172    |
| Operating expenses:                                     |                              |              |                        |                   |                        |            |
| General and administrative                              | 18,500                       | 3,768        | 12,035                 | 12,006            | 20,492                 | 66,801     |
| Selling, marketing and service                          | 4,907                        | 645          | 1,621                  | 2,690             | 1,660                  | 11,523     |
| Depreciation and amortization                           | 4,380                        | 157          | 3,266                  | 1,545             | 1,177                  | 10,525     |
| Restructuring charges                                   | 442                          |              | 718                    | 35                | 96                     | 1,291      |
| Total operating expenses                                | 28,229                       | 4,570        | 17,640                 | 16,276            | 23,425                 | 90,140     |
| Operating income (loss)                                 | 22,304                       | 2,812        | 3,356                  | 5,985             | (23,425)               | 11,032     |
| Other income (expense)                                  |                              |              |                        |                   | 6                      | 6          |
| Interest expense  |                              |              |                        |                   | (1,141)                | (1,141)    |
| Income (loss) before income taxes                       | \$ 22,304                    | \$ 2,812     | \$ 3,356               | \$ 5,985          | \$ (24,560)            | \$ 9,897   |
| Total capital expenditures YTD                          |                              |              |                        |                   |                        |            |
| 2015  | \$ 6,701                     | \$ 407       | \$ 2,704               | \$ 602            | \$ 1,001               | \$ 11,415  |
| Total goodwill at December 31, 2015                     | \$ 11,403                    | \$ 4,914     | \$ 2,325               | \$ 22,940         | \$                     | \$ 41,582  |
| Total assets at December 31, 2015                       | \$ 136,052                   | \$ 59,450    | \$ 60,611              | \$ 47,610         | \$ 32,092              | \$ 335,815 |





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|   | Year Ended December 31, 2014 |                 |                           |                      |                           |  | Total       |
|---|------------------------------|-----------------|---------------------------|----------------------|---------------------------|--|-------------|
|   | Distributed<br>Generation    | Solar<br>Energy | Utility<br>Infrastructure | Energy<br>Efficiency | Eliminations<br>and Other |  |             |
| Revenues  | \$ 77,408                    | \$ 22,609       | \$ 103,204                | \$ 54,038            | \$ (602)                  |  | \$ 256,657  |
| Cost of Sales (excluding depreciation and amortization) | 50,298                       | 18,350          | 88,199                    | 35,843               | (602)                     |  | 192,088     |
| Gross Profit  | 27,110                       | 4,259           | 15,005                    | 18,195               |                           |  | 64,569      |
| Operating expenses:                                     |                              |                 |                           |                      |                           |  |             |
| General and administrative                              | 13,147                       | 2,287           | 11,255                    | 10,543               | 19,187                    |  | 56,419      |
| Selling, marketing and service                          | 3,818                        | 422             | 1,445                     | 2,197                | 1,008                     |  | 8,890       |
| Depreciation and amortization                           | 3,335                        | 102             | 3,446                     | 1,357                | 662                       |  | 8,902       |
| Restructuring charges                                   |                              |                 |                           | 427                  |                           |  | 427         |
| Total operating expenses                                | 20,300                       | 2,811           | 16,146                    | 14,524               | 20,857                    |  | 74,638      |
| Operating income (loss)                                 | 6,810                        | 1,448           | (1,141)                   | 3,671                | (20,857)                  |  | (10,069)    |
| Other income (expense)                                  |                              |                 |                           |                      | 215                       |  | 215         |
| Interest expense  |                              |                 |                           |                      | (1,236)                   |  | (1,236)     |
| Income (loss) before income taxes                       | \$ 6,810                     | \$ 1,448        | \$ (1,141)                | \$ 3,671             | \$ (21,878)               |  | \$ (11,090) |
| Total capital expenditures YTD 2014                     | \$ 7,397                     | \$ 82           | \$ 2,564                  | \$ 767               | \$ 2,021                  |  | \$ 12,831   |
| Total goodwill at December 31, 2014                     | \$ 11,403                    | \$ 4,914        | \$ 2,325                  | \$ 21,568            | \$                        |  | \$ 40,210   |
| Total assets at December 31, 2014                       | \$ 93,626                    | \$ 19,430       | \$ 55,660                 | \$ 44,693            | \$ 51,706                 |  | \$ 265,115  |
|   | Year Ended December 31, 2013 |                 |                           |                      |                           |  | Total       |
|   | Distributed<br>Generation    | Solar<br>Energy | Utility<br>Infrastructure | Energy<br>Efficiency | Eliminations<br>and Other |  |             |
| Revenues  | \$ 95,055                    | \$ 16,481       | \$ 111,654                | \$ 47,044            | \$                        |  | \$ 270,234  |
| Cost of Sales (excluding depreciation and amortization) | 57,532                       | 12,822          | 89,908                    | 38,389               |                           |  | 198,651     |
| Gross Profit  | 37,523                       | 3,659           | 21,746                    | 8,655                |                           |  | 71,583      |
| Operating expenses:                                     |                              |                 |                           |                      |                           |  |             |
| General and administrative                              | 11,889                       | 1,844           | 10,901                    | 9,674                | 12,763                    |  | 47,071      |
| Selling, marketing and service                          | 3,668                        | 625             | 1,585                     | 1,369                | 134                       |  | 7,381       |
| Depreciation and amortization                           | 2,672                        | 88              | 2,658                     | 1,337                | 532                       |  | 7,287       |
| Restructuring charges                                   |                              |                 |                           | 1,205                |                           |  | 1,205       |
| Total operating expenses                                | 18,229                       | 2,557           | 15,144                    | 13,585               | 13,429                    |  | 62,944      |
| Operating income (loss)                                 | 19,294                       | 1,102           | 6,602                     | (4,930)              | (13,429)                  |  | 8,639       |
| Other income (expense)                                  |                              |                 |                           |                      | 81                        |  | 81          |
| Interest expense  |                              |                 |                           |                      | (817)                     |  | (817)       |

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|                                     |           |          |          |            |             |          |
|-------------------------------------|-----------|----------|----------|------------|-------------|----------|
| Income (loss) before income taxes   | \$ 19,294 | \$ 1,102 | \$ 6,602 | \$ (4,930) | \$ (14,165) | \$ 7,903 |
| Total capital expenditures YTD 2013 | \$ 5,568  | \$ 61    | \$ 2,838 | \$ 400     | \$ 755      | \$ 9,622 |

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|   | Year Ended December 31, 2012 |              |                        |                   |                        | Total      |
|---|------------------------------|--------------|------------------------|-------------------|------------------------|------------|
|   | Distributed Generation       | Solar Energy | Utility Infrastructure | Energy Efficiency | Eliminations and Other |            |
| Revenues  | \$ 68,134                    | \$ 8,218     | \$ 60,735              | \$ 24,952         | \$                     | \$ 162,039 |
| Cost of Sales (excluding depreciation and amortization) | 40,269                       | 6,682        | 45,703                 | 18,299            |                        | 110,953    |
| Gross Profit  | 27,865                       | 1,536        | 15,032                 | 6,653             |                        | 51,086     |
| Operating expenses:                                     |                              |              |                        |                   |                        |            |
| General and administrative                              | 10,635                       | 1,082        | 7,855                  | 3,585             | 13,044                 | 36,201     |
| Selling, marketing and service                          | 1,668                        | 288          | 372                    | 1,026             | 2,206                  | 5,560      |
| Depreciation and amortization                           | 2,435                        | 41           | 1,478                  | 392               | 434                    | 4,780      |
| Restructuring charges                                   | 1,267                        |              | 152                    | 436               | 820                    | 2,675      |
| Total operating expenses                                | 16,005                       | 1,411        | 9,857                  | 5,439             | 16,504                 | 49,216     |
| Operating income (loss)                                 | 11,860                       | 125          | 5,175                  | 1,214             | (16,504)               | 1,870      |
| Other income and (expenses):                            |                              |              |                        |                   |                        |            |
| Gain on sale of unconsolidated affiliate                |                              |              |                        |                   | 1,439                  | 1,439      |
| Interest and other income                               |                              |              |                        |                   | 88                     | 88         |
| Interest expense  |                              |              |                        |                   | (449)                  | (449)      |
| Income (loss) before income taxes                       | \$ 11,860                    | \$ 125       | \$ 5,175               | \$ 1,214          | \$ (15,426)            | \$ 2,948   |

**15. Unaudited Quarterly Consolidated Financial Data**

The following table illustrates selected unaudited consolidated quarterly statement of operations data for the years ended December 31, 2015 and 2014. In our opinion, this unaudited information has been prepared on substantially the same basis as our consolidated financial statements and includes all adjustments (consisting of normal recurring adjustments) necessary to present fairly the unaudited consolidated quarterly data. This unaudited consolidated quarterly data should be read together with our audited consolidated financial statements and the other notes thereto. The results for any past quarter are not necessarily indicative of results for any future period.

|   | Quarter in 2015 |            |            |            |
|---|-----------------|------------|------------|------------|
|   | First           | Second     | Third      | Fourth     |
| Revenues  | \$ 79,509       | \$ 107,182 | \$ 106,982 | \$ 150,028 |
| Cost of sales (excluding depreciation and amortization) | 58,180          | 83,111     | 80,077     | 121,161    |
| Gross profit  | 21,329          | 24,071     | 26,905     | 28,867     |
| Total operating expenses                                | 20,859          | 22,290     | 23,217     | 23,774     |
| Operating income (loss)                                 | 470             | 1,781      | 3,688      | 5,093      |
| Other income (expense), net                             | (268)           | (285)      | (311)      | (271)      |

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|                                   |         |         |          |          |
|-----------------------------------|---------|---------|----------|----------|
| Income (loss) before income taxes | 202     | 1,496   | 3,377    | 4,822    |
| Income tax expense (benefit)      | 81      | 625     | 1,385    | 1,967    |
| Net income (loss)                 | \$ 121  | \$ 871  | \$ 1,992 | \$ 2,855 |
| Earnings (loss) per share:        |         |         |          |          |
| Basic                             | \$ 0.01 | \$ 0.04 | \$ 0.09  | \$ 0.13  |
| Diluted                           | \$ 0.01 | \$ 0.04 | \$ 0.09  | \$ 0.13  |

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|   | <b>Quarter in 2014</b> |               |              |               |
|---|------------------------|---------------|--------------|---------------|
|   | <b>First</b>           | <b>Second</b> | <b>Third</b> | <b>Fourth</b> |
| Revenues  | \$ 52,797              | \$ 57,069     | \$ 65,044    | \$ 81,747     |
| Cost of sales (excluding depreciation and amortization) | 41,756                 | 42,738        | 46,973       | 60,621        |
| Gross profit  | 11,041                 | 14,331        | 18,071       | 21,126        |
| Total operating expenses                                | 17,658                 | 18,273        | 18,597       | 20,110        |
| Operating income (loss)                                 | (6,617)                | (3,942)       | (526)        | 1,016         |
| Other income (expense), net                             | (296)                  | (287)         | (324)        | (114)         |
| Income (loss) before income taxes                       | (6,913)                | (4,229)       | (850)        | 902           |
| Income tax expense (benefit)                            | (2,654)                | (1,481)       | (314)        | 351           |
| Net income (loss)                                       | \$ (4,259)             | \$ (2,748)    | \$ (536)     | \$ 551        |
| Earnings (loss) per share:                              |                        |               |              |               |
| Basic   | \$ (0.19)              | \$ (0.12)     | \$ (0.02)    | \$ 0.02       |
| Diluted   | \$ (0.19)              | \$ (0.12)     | \$ (0.02)    | \$ 0.02       |

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| <b>Description</b>                      | <b>Balance at<br/>Beginning of<br/>Period</b> | <b>Additions:<br/>Charged to<br/>Operating<br/>Expenses</b> | <b>Deductions:<br/>Write-offs</b> | <b>Balance at<br/>End of<br/>Period</b> |
|---|---|---|-----------------------------------|---|
| <b>Allowance for doubtful accounts:</b> |   |   |                                   |   |
| Year ended December 31, 2015            | \$ 470  | \$ 450  | \$ (418) (1)                      | \$ 502                                  |
| Year ended December 31, 2014            | 544   | 416   | (490) (1)                         | 470                                     |
| Year ended December 31, 2013            | 336   | 533   | (325) (1)                         | 544                                     |
| <b>Inventory reserve:</b>               |   |   |                                   |   |
| Year ended December 31, 2015            | \$ 890  | \$ 494  | \$ (399) (2)                      | \$ 985                                  |
| Year ended December 31, 2014            | 1,357   | 496   | (963) (2)                         | 890                                     |
| Year ended December 31, 2013            | 1,760   | 566   | (969) (2)                         | 1,357                                   |

(1) Represents amounts written off as uncollectible, less recoveries.

(2) Represents amounts written off against reserve, less recoveries.

Table of Contents**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

POWERSECURE INTERNATIONAL, INC.

By: /s/ SIDNEY HINTON  
**Sidney Hinton**  
**President and Chief Executive Officer**

Date: March 14, 2016

**POWER OF ATTORNEY**

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Sidney Hinton, Eric Dupont and Paul R. Hess, jointly and severally, as his true and lawful attorneys-in-fact, each with the power of substitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact and agents, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

| <b>Signature</b>  | <b>Title</b>  | <b>Date</b>    |
|---|---|----------------|
| /s/ SIDNEY HINTON<br><b>Sidney Hinton</b>                 | President, Chief Executive Officer and Director<br><i>(Principal Executive Officer)</i>   | March 14, 2016 |
| /s/ CHRISTOPHER T. HUTTER<br><b>Christopher T. Hutter</b> | Executive Vice President, Chief Operating Officer,<br>and Assistant Secretary   | March 14, 2016 |
| /s/ ERIC DUPONT<br><b>Eric Dupont</b>                     | Executive Vice President, Chief Financial Officer,<br>Treasurer and Secretary<br><i>(Principal Financial Officer)</i>   | March 14, 2016 |
| /s/ GARY J. ZUIDERVEEN<br><b>Gary J. Zuiderveen</b>       | Vice President of Financial Reporting, Controller,<br>Principal Accounting Officer, Assistant Treasurer<br>and Assistant Secretary<br><i>(Principal Accounting Officer)</i> | March 14, 2016 |



|                             |                                    |                |
|-----------------------------|------------------------------------|----------------|
| /s/ W. KENT GEER            | Chairman of the Board and Director | March 14, 2016 |
| <b>W. Kent Geer</b>         |                                    |                |
| /s/ THOMAS J. MADDEN III    | Vice Chairman and Director         | March 14, 2016 |
| <b>Thomas J. Madden III</b> |                                    |                |
| /s/ KEVIN P. COLLINS        | Director                           | March 14, 2016 |
| <b>Kevin P. Collins</b>     |                                    |                |
| /s/ A. DALE JENKINS         | Director                           | March 14, 2016 |
| <b>A Dale Jenkins</b>       |                                    |                |

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**POWERSECURE INTERNATIONAL, INC.**

**Form 10-K**

**For the Year Ended December 31, 2015**

**EXHIBIT INDEX**

| Number | Description  |
|--------|--|
| (2.1)  | Asset Purchase and Sale Agreement, dated as of October 14, 2014, between Power Design, Inc. and PowerSecure, Inc. (Incorporated by reference to Exhibit 2.1 to Registrant's Current Report on Form 8-K, filed October 14, 2014).*  |
| (2.2)  | Agreement and Plan of Merger, dated February 24, 2016, by and among The Southern Company, PSMS Corp. and PowerSecure International, Inc. (Incorporated by reference to Exhibit 2.1 to Registrant's Current Report on Form 8-K, filed February 25, 2016).*  |
| (3.1)  | Second Restated Certificate of Incorporation of Registrant. (Incorporated by reference to Exhibit 4.1 to Registrant's Registration Statement on Form S-3, Registration No. 333-96369.)   |
| (3.2)  | Certificate of Ownership and Merger, as filed with the Secretary of State of the State of Delaware on August 22, 2007, merging PowerSecure International, Inc. into Registrant and amending Registrant's Second Amended and Restated Certificate of Incorporation to change Registrant's name to PowerSecure International, Inc. (Incorporated by reference to Exhibit 3.1 to Registrant's Current Report on Form 8-K, filed August 22, 2007.) |
| (3.3)  | Certificate of Amendment to the Second Restated Certificate of Incorporation of PowerSecure International, Inc., filed with the Secretary of State of the State of Delaware on June 19, 2012. (Incorporated by reference to Exhibit 4.4 to Registrant's Registration Statement on Form S-8, Registration No. 333-182214.)  |
| (3.4)  | Amended and Restated By-Laws of Registrant. (Incorporated by reference to Exhibit 3.1 to Registrant's Current Report on Form 8-K, filed April 10, 2009.)   |
| (4.1)  | Specimen Common Stock Certificate. (Incorporated by reference to Exhibit 4.1 to Registrant's Registration Statement on Form S-18, Registration No. 33-44558.)  |
| (10.1) | Registrant's 1998 Stock Incentive Plan, amended and restated as of June 12, 2006. (Incorporated by reference to Exhibit 4.3 to Registrant's Registration Statement on Form S-8, Registration No. 333-134938).**  |
| (10.2) | Form of Incentive Stock Option Agreement under the Registrant's 1998 Stock Incentive Plan, as amended. (Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K, filed August 25, 2004).**  |
| (10.3) | Form of Non-Qualified Stock Option Agreement under the Registrant's 1998 Stock Incentive Plan, as amended. (Incorporated by reference to Exhibit 10.2 to Registrant's Current Report on Form 8-K, filed August 25, 2004).**  |
| (10.4) | Form of Restricted Stock Agreement under the Registrant's 1998 Stock Incentive Plan, as amended. (Incorporated by reference to Exhibit 10.3 to Registrant's Current Report on Form 8-K, filed August 25,   |

2004)\*\*

- (10.5) PowerSecure International, Inc. 2008 Stock Incentive Plan, as amended and restated effective June 19, 2012. (Incorporated by reference to Appendix A to the Registrant's Proxy Statement filed on April 27, 2012.)\*\*

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- (10.6) Form of Restricted Stock Agreement under Registrant's 2008 Stock Incentive Plan. (Incorporated by reference to Exhibit 10.2 to Registrant's Current Report on Form 8-K, filed June 13, 2008.)\*\*
- (10.7) Form of Incentive Stock Option Agreement for Employees under Registrant's 2008 Stock Incentive Plan. (Incorporated by reference to Exhibit 10.3 to Registrant's Current Report on Form 8-K, filed June 13, 2008.)\*\*
- (10.8) Form of Non-Qualified Stock Option Agreement under Registrant's 2008 Stock Incentive Plan. (Incorporated by reference to Exhibit 10.4 to Registrant's Current Report on Form 8-K, filed June 13, 2008.)\*\*
- (10.9) Form of Non-Qualified Stock Option Agreement for Directors (Net Exercise Model) under Registrant's 2008 Stock Incentive Plan. (Incorporated by reference to Exhibit 10.2 to Registrant's Current Report on Form 8-K, filed September 23, 2012.)\*\*
- (10.10) Form of Non-Qualified Stock Option Agreement for Employees (Net Exercise Model) under Registrant's 2008 Stock Incentive Plan. (Incorporated by reference to Exhibit 10.3 to Registrant's Current Report on Form 8-K, filed September 23, 2012.)\*\*
- (10.11) Form of Indemnification Agreement between Registrant and its directors and executive officers. (Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K, filed April 10, 2009.)
- (10.12) Second Amended and Restated Employment and Non-Competition Agreement, dated as of December 17, 2009, by and between Registrant and Sidney Hinton. (Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K, filed December 21, 2009.)\*\*
- (10.13) Letter Agreement, dated February 24, 2016, among The Southern Company, PowerSecure International, Inc. and Sidney Hinton. (Incorporated by reference to Exhibit 10.2 to Registrant's Current Report on Form 8-K, filed February 25, 2016.)\*\*
- (10.14) Restricted Stock Agreement, dated as of December 5, 2013, between PowerSecure International, Inc. and Sidney Hinton (Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K, filed December 9, 2013.)\*\*
- (10.15) First Amended and Restated Employment and Non-Competition Agreement, dated as of December 31, 2008, by and between Registrant and Christopher T. Hutter. (Incorporated by reference to Exhibit 10.2 to Registrant's Current Report on Form 8-K, filed January 7, 2009.)\*\*
- (10.16) Amendment No. 1 to First Amended and Restated Employment and Non-Competition Agreement, dated as of November 6, 2014, by and between Registrant and Christopher T. Hutter. (Incorporated by reference to Exhibit 10.15 to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2015).\*\*
- (10.17) Employment and Non-Competition Agreement, dated as of September 28, 2012, by and between Registrant and Gary J. Zuiderveen. (Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K, filed October 4, 2012.)\*\*
- (10.18) Employment and Non-Competition Agreement, dated as of September 16, 2014, between Registrant and Eric Dupont. (Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K, filed September 18, 2014.)\*\*
- (10.19) Amended and Restated Employment and Non-Competition Agreement, dated as of February 15, 2016, between Registrant and Ronnie Brannen. (Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K, filed February 19, 2016.)\*\*

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- (10.20) PowerSecure International, Inc. 2010 Executive Incentive Compensation Plan (Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K, filed April 19, 2010.)\*\*
- (10.21) Summary Sheet of Compensation of Non-Employee Directors, as of March 1, 2015. (Filed herewith.)\*\*
- (10.22) Amended and Restated Credit Agreement, dated as of December 21, 2011, among Registrant, as borrower, Citibank, N.A., as administrative agent and lender, and Branch Banking and Trust Company, as lender. (Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K, filed December 28, 2011.)
- (10.23) Confirmation Agreement, dated as of December 21, 2011, among Registrant and its active subsidiaries and Citibank, N.A., as administrative agent. (Incorporated by reference to Exhibit 10.4 to Registrant's Current Report on Form 8-K, filed December 28, 2011.)
- (10.24) First Amendment to Amended and Restated Credit Agreement, dated as of December 18, 2012, among PowerSecure International, Inc., as borrower, Citibank, N.A., as administrative agent and lender, and Branch Banking and Trust Company, as lender. (Incorporated by reference to Exhibit 10.4 to Registrant's Current Report on Form 8-K, filed December 19, 2012.)
- (10.25) Second Amendment to Amended and Restated Credit Agreement, dated as of June 19, 2013 among PowerSecure International, Inc., as borrower, Citibank, N.A., as administrative agent and lender, and Branch Banking and Trust Company, as lender. (Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K, filed June 20, 2013).
- (10.26) Amended and Restated Credit Agreement, dated as of December 21, 2011, as amended through June 19, 2013, among PowerSecure International, Inc., as borrower, Citibank, N.A., as administrative agent and lender, and Branch Banking and Trust Company, as lender. (Incorporated by reference to Exhibit 10.2 to Registrant's Current Report on Form 8-K, filed June 20, 2013).
- (10.27) Third Amendment to Amended and Restated Credit Agreement, dated as of July 2, 2014, among PowerSecure International, Inc., as borrower, Citibank, N.A., as administrative agent and lender, and Branch Banking and Trust Company, as lender. (Incorporated by reference to Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q, filed November 5, 2014.)
- (10.28) Fourth Amendment to Amended and Restated Credit Agreement, dated as of October 10, 2014, among PowerSecure International, Inc., as borrower, Citibank, N.A., as administrative agent and lender, and Branch Banking and Trust Company, as lender. (Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K, filed October 14, 2014.)
- (10.29) Fifth Amendment to Amended and Restated Credit Agreement, dated as of October 1, 2015, among PowerSecure International, Inc., as borrower, Citibank, N.A., as administrative agent and lender, and Branch Banking and Trust Company, as lender. (Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K, filed October 7, 2015.)
- (10.30) Sixth Amendment to Amended and Restated Credit Agreement, dated as of November 3, 2015, among PowerSecure International, Inc., as borrower, Citibank, N.A., as administrative agent and lender, and Branch Banking and Trust Company, as lender. (Incorporated by reference to Exhibit 10.5 to Registrant's Current Report on Form 8-K, filed November 3, 2015.)

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- (10.31) Waiver to Credit Agreement, dated as of February 23, 2016, among PowerSecure International, Inc., Citibank, N.A., as administrative agent and lender, and Branch Banking and Trust Company, as lender. (Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K, filed February 25, 2016.)
- (10.32) Form of Security Agreement, dated as of August 23, 2007, by each of Registrant and its active subsidiaries in favor of Citibank, N.A., as administrative agent, as secured party. (Incorporated by reference to Exhibit 10.2 to Registrant's Current Report on Form 8-K filed August 24, 2007.)
- (10.33) Form of First Amendment to Security Agreement, dated as of January 17, 2008, by each of Registrant and its active subsidiaries in favor of Citibank, N.A., as administrative agent, as secured party. (Incorporated by reference to Exhibit 10.4 to Registrant's Current Report on Form 8-K filed January 23, 2008.)
- (10.34) Form of Guaranty, dated as of August 23, 2007, by each active subsidiary of Registrant in favor of Citibank, N.A., as administrative agent. (Incorporated by reference to Exhibit 10.3 to Registrant's Current Report on Form 8-K filed August 24, 2007.)
- (10.35) Deed of Trust, dated as of January 17, 2008, by PowerSecure, Inc., as grantor, in favor of Mary C. Tucker, as trustee for the benefit of Citibank, N.A., as administrative agent, as beneficiary. (Incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on January 23, 2008.)
- (10.36) First Amendment to Deed of Trust, dated as of December 21, 2011, between PowerSecure, Inc. and Citibank, N.A., as beneficiary for secured creditors. (Incorporated by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed on February 10, 2012.)
- (10.37) Form of Deed of Trust, dated as of February 7, 2012, by Reid's Trailer, Inc., as grantor, in favor of Mary C. Tucker, as trustee for the benefit of Citibank, N.A., as administrative agent, as beneficiary. (Incorporated by reference to Exhibit 10.6 to the Registrant's Current Report on Form 8-K filed on February 10, 2012.)
- (10.38) Form of Equipment Lease Agreement, dated as of December 22, 2008, between SunTrust Equipment Finance & Leasing Corp., as lessor, and PowerSecure, Inc., as lessee. (Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K filed December 30, 2008.)
- (10.39) Form of Equipment Lease Guaranty, dated as of December 22, 2008, by Registrant in favor of SunTrust Equipment Finance & Leasing Corp. (Incorporated by reference to Exhibit 10.2 to Registrant's Current Report on Form 8-K filed December 30, 2008.)
- (10.40) Master Lease Agreement, dated as of November 25, 2009, between BB&T Equipment Finance Corporation, as lessor, and PowerSecure, Inc., as lessee. (Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K filed December 2, 2009.)
- (10.41) Master Lease Guaranty, dated as of November 25, 2009, by Registrant in favor of BB&T Equipment Finance Corporation. (Incorporated by reference to Exhibit 10.2 to Registrant's Current Report on Form 8-K filed December 2, 2009.)
- (10.42) Equipment Schedule Series A No. 1, dated as of November 27, 2009, between BB&T Equipment Finance Corporation, as lessor, and PowerSecure, Inc., as lessee. (Incorporated by reference to Exhibit 10.3 to Registrant's Current Report on Form 8-K filed December 2, 2009.)
- (10.43) Rider No. 1 to Equipment Schedule Series A No. 1, dated as of November 27, 2009, between BB&T Equipment Finance Corporation, as lessor, and PowerSecure, Inc., as lessee. (Incorporated by reference to Exhibit 10.4 to Registrant's Current Report on Form 8-K filed December 2, 2009.)

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- (10.44) Rider No. 2 to Equipment Schedule Series A No. 1, dated as of November 27, 2009, between BB&T Equipment Finance Corporation, as lessor, and PowerSecure, Inc., as lessee. (Incorporated by reference to Exhibit 10.5 to Registrant's Current Report on Form 8-K filed December 2, 2009.)
- (10.45) PowerSecure, Inc. Key Employee Long-Term Retention Plan. (Incorporated by reference to Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2006.)\*
- (10.46) Engineering, Procurement and Construction Agreement – Location 1, dated as of July 14, 2014, between PowerSecure Solar, LLC and Georgia Power Company. (Incorporated by reference to Exhibit 10.3 to Registrant's Quarterly Report on Form 10-Q/A, filed February 3, 2015.)\*\*\*
- (10.47) Engineering, Procurement and Construction Agreement – Location 2, dated as of July 14, 2014, between PowerSecure Solar, LLC and Georgia Power Company. (Incorporated by reference to Exhibit 10.4 to Registrant's Quarterly Report on Form 10-Q/A, filed February 3, 2015.)\*\*\*
- (10.48) Master Supply Agreement – Location 1, dated as of August 15, 2014, between PowerSecure Solar, LLC and REC Americas LLC. (Incorporated by reference to Exhibit 10.5 to Registrant's Quarterly Report on Form 10-Q/A, filed February 3, 2015.)\*\*\*
- (10.49) Master Supply Agreement – Location 1, dated as of August 15, 2014, between PowerSecure Solar, LLC and REC Americas LLC. (Incorporated by reference to Exhibit 10.6 to Registrant's Quarterly Report on Form 10-Q/A, filed February 3, 2015.)\*\*\*
- (10.50) Engineering, Procurement and Construction Agreement, dated as of July 9, 2015, between PowerSecure Solar, LLC and Georgia Power Company. (Incorporated by reference to Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q/A, filed January 25, 2016.)\*\*\*
- (14.1) Registrant's Code of Ethics for Principal Executive Officer and Senior Financial Officers. (Incorporated by reference to Exhibit 14.1 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2003.)
- (14.2) Registrant's Code of Business Conduct and Ethics. (Incorporated by reference to Exhibit 14.2 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2003.)
- (21.1) List of Subsidiaries of Registrant. (Filed herewith.)
- (23.1) Consent of Hein & Associates LLP, Independent Registered Public Accounting Firm. (Filed herewith.)
- (31.1) Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (Filed herewith.)
- (31.2) Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (Filed herewith.)

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- (32.1) Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 and Rule 13a-14(b) or 15d-14(b) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (Filed herewith.)
- (32.2) Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 and Rule 13a-14(b) or 15d-14(b) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (Filed herewith.)
- (101.INS) XBRL Instance Document.
- (101.SCH) XBRL Taxonomy Extension Schema Document.
- (101.CAL) XBRL Taxonomy Extension Calculation Linkbase Document.
- (101.DEF) XBRL Taxonomy Extension Definition Linkbase Document.
- (101.LAB) XBRL Taxonomy Extension Label Linkbase Document.
- (101.PRE) XBRL Taxonomy Extension Presentation Linkbase Document.

\* The schedules to this have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Registrant hereby agrees to furnish supplementally a copy of any omitted schedule or exhibit to the Securities and Exchange Commission upon request by the Commission.

\*\* Indicates management contract or compensation plan or arrangement.

\*\*\* Portions of this exhibit have been redacted and filed separately with the Securities and Exchange Commission pursuant to an order granting confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934, as amended.