

POWERSECURE INTERNATIONAL, INC.
Form 10-K
March 10, 2014
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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, 2013

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:

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

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.

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 28, 2013, 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 \$277,652,963, based upon the last sale price of the Common Stock on such date as reported on The NASDAQ Global Select Market (the registrant's principal stock exchange on such date).

As of February 28, 2014, 21,948,718 shares of the registrant's Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for the 2014 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, 2013, are incorporated by reference in Part III of this Annual Report on Form 10-K to the extent stated herein.

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Form 10-K

For the Fiscal Year Ended December 31, 2013

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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, schedule, 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:

our 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 targeted growth rate, 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 economic and market conditions and their effects on our customers and their capital spending and 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 and diversify our operations and businesses;

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

the sufficiency of our capital resources, including our cash and cash equivalents, funds generated from operations, availability of borrowings under our credit and financing arrangements 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 rates, including the expectation that with the utilization of a significant portion of our tax net operating losses in recent years our tax expense in future years will likely approximate prevailing statutory tax rates;

business acquisitions, combinations, sales, alliances, ventures and other similar business transactions and relationships; and

the effects on our business, financial condition and results of operations of litigation, warranty claims and other claims and proceedings that arise from time to time.

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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 their large commercial, institutional and industrial customers.

Our Utility and Energy Technologies segment consists of our three product and service offerings: our Distributed Generation products and services, our Utility Infrastructure products and services, and our Energy Efficiency products and services. These three product and service groups are commonly 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 three product and service offerings because they address large unmet market opportunities due to their strong customer value propositions, and because they require unique knowledge and skills that utilize our core competencies. They share a number of common or complementary utility relationships and customer types, common sales and overhead resources, and common facilities.

Our business operates 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 following areas: Raleigh and Greensboro, North Carolina; Atlanta, Georgia; Bethlehem, Pennsylvania; and Stamford, Connecticut. The locations of our sales organization and field employees are generally in close proximity to the utilities we serve and to their commercial, industrial and institutional customers. We conduct our business through our wholly-owned subsidiary, PowerSecure, Inc.

We conduct all of our on-going business operations through our Utility and Energy Technologies segment. In 2011, we divested the non-core business operations of our Oil and Gas Services segment, which has ceased operations.

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The following chart summarizes our current and former business segments, our products and service categories, and our solutions and major brands:

Business Segment	Product and Service Category	Solutions and Major Brands
Utility and Energy Technologies	Interactive Distributed Generation	Interactive Distributed Generation power systems, smart grid monitoring for electric utilities, peak shaving and demand response, standby power dispatch and control
(Our core business segment)	Utility Infrastructure	<p>PowerSecure Solar distributed energy systems</p> <p>NexGear brand switchgear products and systems</p> <p>UtilityServices utility infrastructure products and services, including transmission and distribution system and substation construction and maintenance</p> <p>UtilityEngineering and PowerServices engineering, regulatory consulting, and electric grid system design</p>
	Energy Efficiency	<p>Encari utility cybersecurity consulting, including NERC Critical Infrastructure Protection (CIP) compliance services.</p> <p>LED Lighting, including:</p> <ul style="list-style-type: none"> EfficientLights lighting for grocery retailers IES lighting for utilities, commercial/industrial customers EnergyLite lighting for utilities, commercial/industrial customers Solais lighting for retailers
Energy Services	Natural Gas Measurement	<p>Energy Efficiency solutions for ESCO customers, including Energy Efficiency upgrades for lighting, building envelope, water, and heating/cooling systems</p> <p>Southern Flow oil and natural gas measurement products and services (This business was sold</p>

effective January 1, 2011)

(Non-core these operations were
divested and ceased in 2011)

Water Processing and
Disposal

WaterSecure water processing and disposal services
for oil and natural gas producers (This business was
sold effective June, 2011)

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, UtilityServices, UtilityEngineering, PowerServices, EfficientLights, Solais, IES, EnergyLite, Solais, Encari and our other registered or common law trademarks, service marks and trade names appearing in this report are our property. Any trademarks, service marks or trade names appearing in this report owned by other companies are the property of their respective owners.

Recent Developments

On December 30, 2013, through our wholly-owned subsidiary Innovative Electronic Solutions Lighting, LLC, which we refer to as IES, we sold substantially all of IES's manufacturing equipment and parts inventory to Anuva Services, Inc., a North Carolina corporation. The sale of assets was in furtherance of our previously announced plans to restructure and realign our operations to increase operating margins in our Energy Efficiency product and service lines in light of several recent acquisitions. Our recent acquisition of Solais Lighting, Inc., which we refer to as Solais, provided advanced manufacturing and sourcing capabilities which enabled us to streamline our operations and sell the IES manufacturing equipment and parts inventory.

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These restructuring and realignment activities, which are designed to integrate and streamline our operations and our product offerings primarily within our Energy Efficiency product area, and also to a lesser extent within other areas of our business, include eliminating certain duplicative facilities, re-sourcing from certain of our energy efficiency suppliers, reducing the number of our Energy Efficiency product offerings, and streamlining our overall organization. Overall, these restructuring and realignment actions resulted in a charge of \$4.9 million in the fourth quarter of 2013, of which \$3.7 million was included in our cost of sales. We currently expect to incur an additional charge of approximately \$0.3-1.0 million in the first quarter of 2014 from the remainder of these restructuring and realignment actions, resulting in total restructuring charges in the range of \$5-6 million.

On October 8, 2013, we announced that we acquired substantially all of the assets and business of Encari, LLC, an Illinois limited liability company, which is engaged in the business of providing cybersecurity 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, referred to as NERC, Critical Infrastructure Protection, or CIP, Reliability Standards. The purchase price for this acquisition was \$4.8 million in cash, plus potential additional earn-out consideration based on the income of the acquired Encari business exceeding a threshold for calendar year 2013. Because the threshold was not met, no earn-out consideration was paid.

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**.

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 used, and intend to 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.

In June 2013, we amended our existing credit facility to (i) add a \$25 million, seven year term loan, (ii) extend the maturity date of the revolving portion of our credit facility by two years to November 12, 2016, and (iii) modify certain covenants and other terms and conditions of the credit agreement. In July 2013, we executed forward interest rate swaps to achieve a fixed interest rate on approximately 80% of the \$25 million term loan, commencing October 1, 2013.

In May 2013, we acquired the minority ownership interests in our majority-owned Southern Energy Management PowerSecure, LLC, which we refer to as PowerSecure Solar, and IES subsidiaries, increasing our ownership interests to 100% in each of these businesses. The purchase price for the 10% PowerSecure Solar minority interest was \$0.2 million in cash. The purchase price for the 33% IES minority interest was 209,060 shares of our common stock, par value \$.01 per share, valued at a total of \$2.9 million at the date of acquisition.

Also in May 2013, we also acquired 100% of the business and certain assets of Powerline EHV & Safety Training, LLC, which we refer to as PowerLine. The acquired PowerLine capabilities include safety training and enhanced our utility infrastructure safety and training programs. The purchase price for the PowerLine business was \$1.1 million which included a cash payment of \$0.6 million at closing and annual cash installment payments of \$0.1 million payable over the next five years.

In April 2013, we acquired Solais, a Connecticut-based LED lighting company with a proprietary portfolio of LED lamps and fixtures for commercial applications, including retailers. Solais' innovative designs, which are covered by a

variety of patents and patents pending, provide 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. The consideration paid by us consisted of approximately \$6.5 million in cash plus 675,160 shares of our common stock, par value \$.01 per share, for an aggregate purchase price of approximately \$15 million. For purposes of the transaction, the shares of common stock that 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 acquisition was completed. For purposes of applying the purchase accounting provisions of Accounting Standards Codification 805, *Business Combinations*, 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.

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In February 2013, we acquired certain assets, including contracts with customers relating to energy efficiency projects, of the energy services business, referred to as the ESCO business, of Lime Energy Services Co., the operating subsidiary of Lime Energy Co. The acquired ESCO business involves the design, installation and maintenance of energy conservation measures, primarily as a subcontractor to large energy service company providers, called super 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 business serves super 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 purchase price for the acquired ESCO assets and business consisted of approximately \$2.0 million in cash plus the assumption of approximately a negative \$3.6 million net working capital balance. The negative net working capital that we assumed consisted of approximately \$6.3 million in accounts receivable and other current assets and approximately \$10.0 million in trade payables and other debts, liabilities and obligations relating to the acquired business and assumed contracts. In connection with the acquisition, we assumed certain contracts relating to unfinished projects in the acquired business, along with the assumption of the accounts receivables and accounts payables associated with those projects.

The Industry and our Business Areas of Focus

The U.S. electricity industry is large and has expanded over the last two decades. According to the U.S. Energy Information Administration, or EIA, the U.S. electricity market totaled \$364 billion in end-user revenue in 2012, with approximately 3,900 billion kilowatt hours consumed. 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.

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. Our company is highly entrepreneurial and 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.

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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 our Utility and Energy Technologies segment, including our Distributed Generation, Utility Infrastructure and Energy Efficiency products and services.

Our Growth Strategy

From 2005 through 2013, our revenues have grown at a compound annual growth rate of 32%. In 2013, our total revenues grew 67%, with Distributed Generation revenues growing 46%, our Utility Infrastructure revenues growing 84% and our Energy Efficiency revenues growing 88%, compared to 2012. 45 percentage points of our 67% total revenue growth in 2013 was organic growth, and the remaining 22 percentage points was attributable to acquisitions we made in 2013.

We believe that there is a substantial opportunity for the continued growth of our business 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 Distributed Generation, Utility Infrastructure and Energy Efficiency product offerings.

Being a Strong Partner to Utilities to Assist them in their Efforts and Investment to Maintain and Protect the U.S. Electricity Grid. According to The Brattle Group, U.S. transmission and distribution investment is expected to total approximately \$880 billion from 2010-2030. 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 product and service areas, we have continued to focus on bringing innovative products and solutions to our customers. For example, in 2013, we saw significant growth in the percentage of our Distributed Generation solutions which incorporated our proprietary PowerBlock solution. We also added new safety and training resources, and cybersecurity consulting expertise to our Utility Infrastructure solutions, and introduced new lighting and ESCO solutions for both utility and commercial customers. We believe our engineering expertise, and our strong customer relationships and focus on customer intimacy, provide us with the opportunity to continue our track record of innovation, which will contribute to our potential future growth.

Acquiring Key Technologies or 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, adding value for our customers and accretive to our financial performance.

Our Distributed Generation Solutions

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 solar energy systems provide utilities and their customers with environmentally friendly power to augment their core power requirements.

Our Distributed Generation systems contain our proprietary electronic controls and software, which enable our systems to be monitored around the clock by our smart grid monitoring center, protecting our customers' operations from power outages and their costs. Through our monitoring center, we also forecast utilities' peak

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demand periods and we electronically deploy our systems during these periods to power customers' operations instead of drawing electricity from the utility grid. Our smart grid 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 the 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, and during peak shaving activities our NexGear parallel switchgear technology enables power to be transferred between (1) the grid, (2) our distributed generation system, and (3) the facility it supports, without any interruption. 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.

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. 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.

Our Systems and Technology

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 6,000 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, has become our solution, and combines standardized size building blocks. These

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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 power plants for 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 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 a combination of natural gas and diesel, 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. For example, we recently introduced a new version of our PowerBlock generator system that runs on a combination of natural gas and diesel fuel and is Tier 4 Interim emissions compliant.

Our turn-key solar distributed energy system capabilities include the design, engineering, project development, installation and project management of these solutions. Our distributed 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, activating and monitoring the solar power system.

Smart Grid Monitoring Center and NexGear Technology

We build smart grid 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 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 monitoring center.

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We believe our combination of unique smart grid capabilities is unmatched in the industry. Through our 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 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.

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 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 also usually receive a modest amount, relative to the initial purchase price, of on-going monthly revenue 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, 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 15 years. The fees that generate our revenues in the recurring revenue model are generally paid to us 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, 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.

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 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 between us and the utility, us and the customer, or all three parties.

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In 2013, 86.3% of our Distributed Generation revenues consisted of customer-owned sales, and 13.7% of our Distributed Generation 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 time frame 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, changes in the sales of customer-owned systems have significant impacts on our near-term revenues and profits and cause them to fluctuate from period-to-period. 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 2012 acquisition of PowerSecure Solar provided us with the ability to deliver solar energy systems through our Distributed Generation solutions platform. These solar energy systems are sold under the project-based, customer-owned model, and we also expect that we will own and operate certain systems in the future under a PowerSecure-owned, recurring revenue model.

Our Utility Infrastructure Solutions

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.

Market

There are more than 3,000 electric utilities in the U.S. In 2012, these utilities invested more than \$30 billion to maintain, upgrade and enhance the efficiency of their transmission and distribution infrastructure. Several industry trends suggest there will continue to be strong transmission and distribution investment 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 its security. 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. The challenging economic circumstances of the deep, protracted recession that started in the 2007-2009 time period caused many utilities to reduce their spending in these areas, and it is likely that as electricity demand increases with an increase in economic activity, transmission and distribution system infrastructure spending will increase to accommodate increases in demand. Additionally, the new technologies have facilitated the cost-effective extraction of oil and gas from shale formations, many of which are in remote areas, and this is driving an increase in demand for utility infrastructure services to provide transmission and distribution lines to serve these production operations.

Utilities generally use a combination of internal and third-party outsource 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

investor-owned utilities, referred to as IOUs, electric cooperatives and municipal utilities of virtually every size. Historically, our geography was primarily concentrated in the Southeastern U.S. 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 Northeast regions. We intend to continue to expand our utility relationships and the geography we serve as our business grows and develops.

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Products and Services

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, 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, which we acquired in October 2013, provides cybersecurity 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 NERC's CIP Reliability Standards. Our team of engineers is based in Raleigh, North Carolina but also operates in various other locations.

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 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 percentage-of-completion basis as they are completed. 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.

Our Energy Efficiency Solutions

Overview

We deliver Energy Efficiency solutions to assist our customers in the achievement of their energy efficiency goals. We have two primary product and service offerings in our Energy Efficiency solutions: LED lighting fixtures and lamps, and energy efficiency upgrades for our super ESCO customers. Our LED lighting solutions are primarily focused on the utility, commercial and industrial markets, while our ESCO energy efficiency solutions are focused on serving the ESCO channel. In the future, we plan to bring our LED lighting solutions to our super ESCO 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.

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Our LED lighting solutions include our 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 recently realigned and consolidated these operations into Solais, 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 ESCO solutions, which give us the capability to provide general lighting, building envelope, HVAC and water efficiency solutions to the super ESCOs, which are the largest of the energy service companies and which deliver these energy efficiency solutions to commercial, industrial and institutional facilities.

Our LED lighting products, led by our Solais team and operations, 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. Solais 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 fixtures for reach-in refrigerated cases, shelf and canopy lighting for open refrigerated cases, overhead lighting for walk-in storage coolers, and outdoor lighting.

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

The primary client base for our ESCO products and services include large energy service companies, referred to as super ESCOs. Through our relationships with super ESCOs, we provide facility upgrades for public sector customers, including federal, state and local government agencies and educational institutions. As super 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 a super 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 our super ESCO 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. In the future we plan to add our Distributed Generation and LED lighting products as part of these solutions.

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

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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. For example, the Energy Independence and Security Act of 2007 in the United States bans the sale of various incandescent lights over a phase-in period that commenced in 2012.

In the ESCO market, super 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 installations, on-site cogeneration, renewable energy systems, load management, energy procurement, rate analysis, risk management and billing administration. Super ESCOs often offer their products and services through energy savings performance contracts, or ESPCs. Under these contracts, super 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 super 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.

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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 outdoor lighting; 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.

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, the majority of our lights are sold by us directly to the customer, although we also have distributor relationships that serve certain product lines. 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.

Our ESCO energy efficiency revenues are generated through a full range of turn-key services we provide to the super ESCOs. 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 the most appropriate, effective and proven technologies available in the marketplace.

Our Former Oil and Gas Services Segment

We ceased operations in this business segment in 2011, following the completion of the sales of our two non-core businesses: WaterSecure, Inc. and Southern Flow Companies, Inc.

WaterSecure held a significant non-controlling minority portion of the equity interests in an unconsolidated business, Marcum Midstream 1995-2 Business Trust, which we refer to as MM 1995-2 or as our WaterSecure operations. Our WaterSecure operations provided water processing, recycling and disposal services for oil and natural gas products. In June 2011, substantially all of the assets and business of MM 1995-2 were sold. In June 2012, the final sales proceeds out of an escrow were distributed to the shareholders of MM 1995-2, after which MM 1995-2 was dissolved. Accordingly, our WaterSecure subsidiary no longer has any on-going operating activity. Additional information about

the sale of the WaterSecure operations is set forth in Note 7, Investment in Unconsolidated Affiliate of the notes to our consolidated financial statements included elsewhere in this report and incorporated herein by reference.

Southern Flow, which we sold in January 2011, provided oil and natural gas measurement services to customers involved in oil and natural gas production, transportation and processing, with a focus on the natural gas market. Due to its sale, Southern Flow's operations are reflected as discontinued operations and the results of its operations are excluded from our Oil and Gas Services segment for all periods presented in this report. Additional information about the sale of the WaterSecure operations is set forth in Note 6, Discontinued Operations of the notes to our consolidated financial statements included elsewhere in this report and incorporated herein by reference.

As a result of the sales of our WaterSecure and Southern Flow operations, our Oil and Gas Services segment ceased on-going business activities in June 2011 and thus we no longer report ongoing operations in the Oil and Gas Services segment in financial periods after June 30, 2011.

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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. Over the past three years, all of our revenues have been generated from customers in the United States.

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 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. For our Utility Infrastructure products and services, we market directly to utilities, including investor-owned utilities, cooperatives and municipalities. For our Energy Efficiency LED lighting products, we market to commercial, industrial and institutional customers, and also directly to utilities and municipalities. For our Energy Efficiency ESCO solutions we market directly to the super ESCOs. 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, domestically and globally, 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.

For our Distributed Generation solutions, 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, 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. Also, the solar distributed energy system market is very competitive and rapidly evolving, and is significantly dependent on government incentives. For this product offering we expect to face increased 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.

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For our Energy Efficiency solutions, we face numerous competitors. This includes numerous competitors in the market for lighting products in general, and 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 ESCO energy efficiency solutions. This includes regional and national solutions providers. Many of these competitors are focused on one aspect of ESCO solutions, for example HVAC solutions, and several have a suite of multiple solutions they can offer the super ESCOs. The competition for these solutions is strong, with highly skilled, well-financed competitors, and the requirements of our super ESCO customers are demanding.

In our Utility Infrastructure area, 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;

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.

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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; and

federal and state energy efficiency incentives.

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.

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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 February 28, 2014, we had 692 full-time and 61 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. Our recent acquisition of PowerLine is intended to enhance our emphasis on safety training.

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. We are partially self-insured 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 the ordinary course of business, we are required by certain customers to post surety or performance bonds in connection with services that we provide to them. These bonds 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 make payments or provide services under the bond. We must reimburse the surety for any expenses or outlays it incurs. As of December 31, 2013, we had approximately \$88 million in surety bonds outstanding, including outstanding surety bonds issued in connection with the contracts and projects acquired from Lime in the acquisition of the ESCO business. Based upon the current status of our contracts and projects, we estimate our remaining exposure on these surety bonds was approximately \$30.3 million at December 31, 2013. 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.

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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.

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.

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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

From time to time we have made certain business investments and acquisitions to enhance our capabilities and to provide new platforms for growth. Since forming our Distributed Generation business in 2000, we have made the following additional business investments and acquisitions:

In 2001, we acquired a process control and electric switchgear design and manufacturing firm, which provided the foundation for our NexGear switchgear solutions, an important strategic component of our Distributed Generation systems.

In 2005, we launched two new complementary businesses to serve our utility clients by providing regulatory consulting, energy system engineering and design, and energy conservation services. These engineering and consulting capabilities are operated under the brand names UtilityEngineering and PowerServices, and their formation constituted the beginning of our Utility Infrastructure product and service category.

In 2006, we formed a new business to provide energy efficiency services to industrial and commercial customers, primarily involving efficient lighting products. This business operates under the brand name EnergyLite and now operates under our Energy Efficiency product category.

Also in 2006, we launched a business unit focused on marketing the services of our businesses to federal customers, primarily in conjunction with our utility alliances. This investment represented the next step in the evolution and development of our Utility Infrastructure products and services, and provided us the capability to do larger-scale power projects for utilities and their federal customers.

In late 2006, we acquired a business that provides us with the capability to build trailers and enclosures for our distributed generation and switchgear equipment. This business has now been fully incorporated into our Distributed Generation business primarily as a source of manufacturing for many of the components of our distributed generation systems, including our PowerBlock generator technology.

In mid-2007, we launched a business unit focused on providing utilities with solutions involving building and servicing transmission and distribution systems. This business operates under the brand name UtilityServices, and its capabilities further enhance and complement our Utility Infrastructure products and services, strengthening the breadth of our overall offerings in this area.

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In late 2007, we organized a new business to design and manufacture LED-based lighting solutions, including initially solutions specifically aimed at substantially reducing the energy consumed in grocery, drug and convenience stores. This business operates under the brand name EfficientLights, and its product offerings include EfficientLights lighting for retailers reach-in refrigerated cases, walk-in refrigerated storage coolers, canopy and shelf lighting for open refrigerated cases, and parking lot and security lighting.

In April 2010, we launched an expansion of our LED lighting business through the formation and acquisition of a two-thirds controlling interest in an LED lighting development company named IES. This business broadened our Energy Efficiency solutions through the addition of turn-key product development, design and manufacturing of solid state LED-based lights, including power drivers, light engines and thermal management solutions. In May 2013, we acquired the remaining minority interest in IES. In December 2013, we sold the manufacturing equipment assets of IES as part of our streamlining of the Energy Efficiency product area.

In June 2012, we acquired PowerSecure Solar, a distributed solar energy business, adding a solar capability to our distributed generation system platform. This acquisition provided us the capability to provide stand-alone solar energy PV systems to utilities and their commercial and industrial customers, as well as utilizing solar energy in combination with our traditional distributed generation and microgrid systems.

In February 2013, we acquired the ESCO business of Lime. 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.

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.

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Segment Information

Until 2011, we conducted our operations through two business segments:

In our core Utility and Energy Technologies segment, we serve utilities and commercial, institutional and industrial customers with products and services in the areas of Distributed Generation, Utility Infrastructure and Energy Efficiency. This is the only business segment in which we have ongoing operations.

In our non-core Oil and Gas Services segment, which ceased operations in 2011 and was formerly referred to as our Energy Services segment, we provided customers in the oil and natural gas production business with water processing, recycling and disposal services through our WaterSecure business, the assets and business of which were sold in June 2011. In this segment we also provided customers in the oil and natural gas production business with our measurement services and products through our Southern Flow subsidiary, which we sold effective January 1, 2011. As a result of these sales, our Oil and Gas Services segment ceased business activities in 2011.

Financial information related to our segment operations for the past three fiscal years is set forth in Note 15, Segment and Related Information of the notes to our consolidated financial statements included elsewhere in this report and incorporated herein by reference.

Discontinued Operations

In January 2011 we sold our Southern Flow business and operations, which was part of our Oil and Gas Services segment. During the second half of 2011, we substantially completed the shutdown activities of our PowerPackages business which provided medium speed engine distributed generation products and services within our Utility and Energy Technologies segment. As a result, the sale of Southern Flow and the results of operations of PowerPackages are classified as discontinued operations in the accompanying consolidated financial statements.

Additional Corporate Information

We were incorporated in Delaware on April 5, 1991. On August 22, 2007, we changed our name to PowerSecure International, Inc. from Metrotek Technologies, 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.

Available Information

Our corporate website is located at 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 maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers, such as us, that file electronically with the

SEC at www.sec.gov.

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 contents of and the information on or accessible through our corporate website, including the investor relations portion of our website, is not a part of, and is not intended to be 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.

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The names of our executive officers and their ages, positions with us and biographies as of March 1, 2014 are set forth below:

Name	Age	Positions
Sidney Hinton	51	President, Chief Executive Officer and Director
Christopher T. Hutter	47	Executive Vice President, Chief Financial Officer, Treasurer and Secretary
Gary J. Zuiderveen	54	Vice President of Financial Reporting, Controller, Principal Accounting Officer, Assistant Treasurer and Assistant Secretary

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 since April 2007 and has served as a member of our Board of Directors since June 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 our Chief Financial Officer and Treasurer since December 2007, as our Executive Vice President since March 2010 (after having served as our Vice President since December 2007) and as our Secretary since September 2012. 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.

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.

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Item 1A. Risk Factors

Our business and future operating results may be affected by many risks, uncertainties and other factors, including those set forth below and those contained elsewhere in this report. If any of the following risks were to occur, our business, affairs, assets, financial condition, results of operations, cash flows and prospects could be materially and adversely affected. When we say that something could have a material adverse effect on us or on our business, we mean that it could have one or more of these effects.

Risks Related to Our Business and Industry

The uncertain economic recovery, including continuing challenging business and market conditions, and inconsistent financial and capital markets, has the potential to materially and adversely affect our business and financial results in future periods.

The United States and world economies have been slow to recover from the deep economic recession and financial crisis that impacted the business community and the financial markets starting in the 2007-09 period. There is no certainty as to whether the economic recovery will continue, or if it does continue the pace of that recovery. Adverse economic conditions could negatively affect our customers and our markets, and thus negatively impact our business and results of operations by extending 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 them. As a result, if the recovery ends and economic conditions and factors worsen, it could limit our growth and expansion and otherwise materially and adversely affect our business, financial condition and results of operations.

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 the following:

the effects of general economic and financial conditions, including the slow and uncertain economic recovery and the inconsistent capital and credit markets, the potential economic consequences if critical fiscal, deficit and budgetary deadlines are not met, and the potential for economic and market challenges to continue or recur in the future, negatively impacting our business operations and our revenues and net income, 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;

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 PowerSecure Solar, ESCO and Solais;

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 increasing our gross margins over the long-term;

our ability to sell, complete and recognize satisfactory levels of near-term 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 profitability 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;

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our ability to maintain and grow our Utility Infrastructure revenues, and to maintain and increase 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 new arrangements we are establishing to source these products and components from vendors in Asia;

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 Utility Infrastructure products and services;

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;

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;

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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;

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.

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 revenues, project-based utility infrastructure revenues and sales of LED lighting fixtures, 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.

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 not be able to continue to grow and remain profitable or reach or exceed the levels of growth, revenues and profits that we target in the future.

While in recent years we have experienced a high rate of growth and our business has generally been profitable on an annual basis, in future periods we may not be able to continue our recent levels of growth in our revenues or to maintain or increase our profitability or to meet the levels of growth and the financial results we expect or target, due

to one or more of the factors listed in this item or of the other factors discussed elsewhere in this report. Also, as a result of 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 also as a result of other expenses and capital expenditures we may incur from time to time in the short-term in operating our business or in our efforts to grow our business, we might not be able to maintain or grow our profitability. As a result, there is no assurance that we will continue to generate revenues and profits in future periods that exceed or are comparable to prior periods, or that we will be profitable in any particular future period. 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 results of operations could be materially and adversely affected.

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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 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 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 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 in large part to the receipt of cash proceeds from a June 2013 term loan under our credit facility and from our August 2013 public offering of stock, as well as the availability of revolving 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 Distributed Generation, Energy Efficiency and Utility Infrastructure products and services have experienced high growth rates, which have required, and will likely continue to require, additional funds to finance working capital needs due to long payment cycles, as well as investments in operational equipment. 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 was amended and restated in June 2013, consists of a revolving credit line of \$20 million and two term loans, a \$25 million term loan maturing in 2020 and a \$2.6 million term loan maturing in November 2016. The proceeds under our credit facility are available for our capital requirements subject to our meeting certain financial and operating covenants. The revolving portion of our credit facility matures in November 2016. As of December 31, 2013, we had no balance outstanding under the revolving portion of our credit facility and a \$25.3 million balance under the term loans, and we were in full compliance with all our covenants.

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Our ability to borrow under the revolving credit facility is subject to our ability to satisfy certain financial covenants, and our ability to satisfy those covenants depends principally upon our ability to achieve positive operating performance including but not limited to earnings before interest, taxes, depreciation and amortization, or EBITDA, and ratios thereof, as well as certain balance sheet ratios. If we are unable to fully satisfy the financial covenants of the credit facility, and any such failure is not waived by our lenders, then we will be in breach of the terms of our credit facility. 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 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 or performance 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 in connection with services that we provide to them. These bonds 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 make payments or provide services under the bond. We must reimburse the surety for any expenses or outlays it incurs. As of December 31, 2013, we had approximately \$88 million in surety bonds outstanding, including those surety bonds issued in connection with the contracts and projects acquired in the acquisition of the ESCO business in February 2013. Based

upon the current status of our contracts and projects, we estimate our remaining exposure on these surety bonds was approximately \$30 million at December 31, 2013.

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.

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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 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; and

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.

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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. As a result, we are continually replacing revenue from current customers and projects with revenue 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.

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.

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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. 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.

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.

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, 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 PowerBlocks, 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, and 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.

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,

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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.

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.

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, 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;

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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;

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 continue our recent rate of growth and profitability is dependent, in part, upon on our ability to maintain and accelerate the growth in our Utility Infrastructure revenues.

Our growth rate in recent years has been 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 continue 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. 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 continue our recent rate of 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;

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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 recent acquisition of Solais and its management. However, while we are 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 as we move production to Asian manufacturers, which could increase costs and reduce our operating results, including design and cost overruns, poor production process yields and reduced quality control during the start-up phase. We expect to incur some or all of these costs during the start-up phase of our manufacturing transition, and our plan is to normalize these as we move into full production. If we fail to transition our manufacturing to lower cost sources 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. For example, the Energy Independence and Security Act of 2007 bans the sale of various incandescent lights in the United States over a phase-in period that commenced on January 1, 2012. Some of these constraints and bans may be eliminated or delayed by legislative or regulatory action, which could have a negative impact on demand for our LED lighting.

With the addition of solar energy systems as a product line in our distributed generation area, 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 distributed solar energy business, PowerSecure Solar, which is integrated into our Distributed Generation product platform. Accordingly, we have limited experience in the solar power business on

which to base our prospects and anticipated results of operations. In this new 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.

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The reduction, elimination or expiration of government tax and economic incentives could adversely affect our ability to achieve sales and market share in the solar business, because we believe that the near-term growth of the solar market depends in large part on the availability and size of government tax and economic incentives. To encourage the adoption of solar technologies, the U.S. government and numerous state governments have provided subsidies in the form of cost reductions, tax write-offs and other incentives to end users, distributors, systems integrators and manufacturers of solar power products. Reduction, elimination and/or periodic interruption of these government subsidies and economic incentives because of policy changes, fiscal tightening or other reasons may result in the diminished competitiveness of solar energy, and materially and adversely affect the growth of these markets and our revenues. 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. The reduction, elimination, or expiration of these standards could negatively impact demand for solar technology generally and our solar energy product line specifically.

The execution of our 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.

Existing regulations and policies and changes to these regulations and policies may present technical, regulatory and economic barriers to the purchase and use of solar power technology, which may significantly reduce demand for our solar energy systems. These regulations and policies are being modified and may continue to be modified. Our costs could be adversely affected and customer purchases of solar power technology could be deterred by these regulations and policies, which could result in a significant reduction in the potential demand for our solar energy systems or adversely affect our ability to conduct those operations profitably in the future.

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 our distributed generation product and service area, and consequently, our operating results.

If we were to lose the services of one or more of our executive officers, 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. In particular, we are dependent upon Sidney Hinton, our President and Chief Executive Officer, who is the visionary and leader of our business 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, especially Mr. Hinton, could materially and adversely affect our business, financial condition and results of operations.

Our ESCO business could be adversely affected if Lime Energy Co., which sold us this business in 2013, is unable to continue as a going concern.

In 2012, Lime Energy Co. announced that its financial statements since 2008 could no longer be relied upon, and subsequently announced that the misreporting would require restatement of its financial statements for the affected periods. In connection with Lime's annual report on Form 10-K for the period ended December 31, 2012, filed on July 31, 2013, Lime's auditor indicated that there was substantial doubt about Lime's ability to continue as a going concern.

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In the event that Lime becomes the subject of a bankruptcy filing or any other insolvency action, we may face a number of risks related to our acquisition of the assets relating to the ESCO business from Lime. For example, a court may find that the subcontracting agreement or any of the assumed contracts under which we serve as subcontractor to Lime, which we refer to as the ESCO contracts, are executory contracts, in which case there is a risk that Lime may have the right to reject the ESCO contracts. Alternatively, under other insolvency laws, a court may find that the sale of the ESCO business should be set aside on fraudulent conveyance principles. If any such event occurs, we may be required to seek recovery from Lime as to our purchase price for the ESCO contracts as an unsecured creditor in the bankruptcy. Further, there is a risk that a trustee in a bankruptcy filing may seek to renegotiate the ESCO business purchase price with us. While we will vigorously defend against these matters if they occur, we cannot provide any assurance that we will be successful in such defense, and our failure to successfully defend against such a proceeding could materially and adversely affect our business and financial results.

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 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 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

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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. 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.

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. Our newer generator systems are made to utilize a blend of natural gas and diesel, and can also be modified to utilize biodiesel, diesel continues to be the primary fuel utilized across our fleet of 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.

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Because our business depends, in part, on conditions in the oil and natural gas industry, such as oil and natural gas prices, volatility in oil and natural gas prices, tight credit markets and disruptions in the U.S. and global financial systems may adversely impact our business.

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 political instability in oil-producing countries. We depend in part on our customers' willingness to make expenditures that are intended to reduce their energy costs. Therefore, weakness in oil and natural gas prices, or the perception by our customers that oil and natural gas prices will 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. A reduction in energy prices could cause a decline in the demand for our products and services or adversely affect the prices that we can charge for our products and services. A material decline in oil and natural gas prices or sustained lower prices could have a material adverse effect on our business, financial condition, results of operations and cash flow.

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.

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 those in development include, but are not limited to, our solar products, 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.

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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 product and service offerings are higher than the margins on other product and service offerings. For example, our Distributed Generation products and services generally yield gross profit margins in the 20-45% range, with our solar Distributed Generation revenues having gross margins that are generally at the lower end of this range, our Utility Infrastructure products and services generally yield gross profit margins in the 5-30% range, and our Energy Efficiency products and services generally yield gross margins in the 15-40% range, with our ESCO revenues having gross margins that are generally at the lower end of this range. The gross profit margin we realize within these ranges 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 product lines can adversely affect our consolidated gross profit margin results. Additionally, our margins 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. 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.

We are subject to lawsuits, claims and other proceedings from time to time, and in the future we could become subject to new 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.

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, 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

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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 position, 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.

In addition, we provide longer warranties for our PowerSecure Solar products and services. 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.

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Many of our products and services 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 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. The length and variability of the sales cycle makes it difficult to predict whether particular sales commitments will be received in any given quarter. 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.

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.

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.

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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.

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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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 recent years, we have experienced substantial growth in our business and revenues due to 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. 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 \$38.9 million at December 31, 2013. 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

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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 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 or procedures 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.

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, or to successfully realize the benefits of any such strategic transactions.

In addition to organic growth, we have grown and expect to continue to grow 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 2012 we acquired PowerSecure Solar, and in 2013 we acquired Solais, Encari, PowerLine and our ESCO 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

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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.

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

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

the 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 unknown risks and liabilities associated with the acquisition;

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

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

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

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

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

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

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

the difficulties in integrating accounting and financial reporting systems;

potential disruptions to our ongoing businesses;

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

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.

We cannot assure you that we will make any additional acquisitions or that this or 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

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number of new trademarks and service marks and intend to continue to introduce new trademarks and service marks, we believe that the success of 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. In applying the percentage-of-completion method to our distributed generation turn-key projects, including our traditional distributed generation projects and our solar projects, we have identified the key output project phases that are standard components of these projects. We have further identified, based on past experience, an estimate of the value of each of these output phases based on a combination of costs incurred and the value added to the overall construction project. While the order of these phases varies depending on the project, each of these output phases is necessary to complete each project and each phase is an integral part of the turn-key product solution we deliver to

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our customers. We use these output phases and percentages to measure our progress toward completion of our projects. For each reporting period, the status of each project, by phase, is determined by employees who are managers of or are otherwise directly involved with the construction project and is reviewed by our accounting personnel. Utilizing this information, we recognize project revenues and associated project costs and gross profit based on the percentage associated with output phases that are complete or in process on each of our projects.

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

Because the percentage-of-completion method of accounting relies upon estimates described above, recognized revenues and profits are subject to revision as a project progresses to completion. Revisions in profit estimates are charged to income in the period in which the facts that give rise to the revision become known. In the event we were required to adjust any particular project's estimated revenues or costs, the effect on the current period earnings may or may not be significant. If, however, conditions arise that require us to adjust our estimated revenues or costs for a series of similar projects, the effect on current period earnings would more likely be significant. In addition, certain contracts provide for cancellation provisions prior to completion of a project. Such cancellation provisions generally require the customer to pay or 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, 2013, our available federal NOLs were approximately \$20 million expiring over the next 16 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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We expect our overall effective tax rate in the future will be higher than in recent years and will adversely affect our net income.

The income tax expense or benefit we record is the result of applying our annual effective tax rate by our net income or loss. Our effective tax rate and our income tax expense or benefit includes the effects of many factors, including changes in the valuation allowance for our net deferred tax asset associated with our NOLs. As a result of the gain from the sales of our non-core businesses in 2011 and the expectation of taxable income in the future, we eliminated our valuation allowance for our net deferred tax asset associated with our remaining NOLs. Our overall effective tax rate in 2011 was reduced by the favorable effects of the elimination of our valuation allowance. In the future, however, we expect our effective tax rate will approximate statutory rates, which will adversely affect our net income.

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;

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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.

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, primarily for our LED lighting products and our Distributed Generation products, and we expect to market and sell some of our products and services, in international markets. While virtually none of our sales have been into international markets in recent years, one component of our strategy for future growth involves the expansion of our products and services into new international markets and the expansion of our marketing efforts in our current international markets. 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. Moreover, we acquire a significant amount of our parts for our LED lights from Asian nations. 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 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:

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

poor quality or protracted production or shipping cycles;

currency exchange fluctuations;

longer payment cycles and greater difficulty in accounts receivable collection;

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.

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

New 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 final 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 required us to undertake due diligence efforts beginning in the 2013 calendar year, with initial disclosure requirements beginning in June 2014. 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.

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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 GHGs. 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 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;

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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 and we do not currently intend to pay 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. We currently intend to retain any future earnings to fund the development, operation and growth of our business, the servicing and repayment of any indebtedness, the repurchase of our shares and other business purposes. Future cash dividends, if any, will be determined by our Board of Directors, in its discretion, based upon our earnings, financial condition, cash flow, capital resources, capital requirements, charter restrictions, contractual restrictions including those under our credit facility, and such other factors as our Board of Directors deems relevant.

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 28, 2013. Prior to that date, our common stock was listed and traded on The NASDAQ Global Select Market. 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. For example, since January 1, 2013, the closing sale price of our common stock has fluctuated from a low of \$7.83, during the first quarter of 2013, to a high of \$24.10, during the first quarter of 2014, as reported on the New York Stock Exchange and The NASDAQ Global Select Market, as applicable. 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. 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:

the effects of economic and market conditions on our business and revenues, especially the effects of the recent challenging financial and economic conditions, including the timing and strength of an economic recovery and its effects on our markets, and the volatility and disruption of the capital and the credit markets 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;

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;

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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;

any litigation or regulatory enforcement actions;

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 may become involved in this type of litigation in the future. 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 have filed two shelf registration statements in 2013 which are effective and 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. In addition, from time to time we may issue shares of our common stock or securities convertible into common stock pursuant to exemptions under the Securities Act registration requirements that we register for resale. 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.

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Item 1B. Unresolved Staff Comments

None

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 23,000 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 and Maryland. The facilities, which consist of approximately 135,000 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 \$147,000 and expire at various dates through 2020.

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

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, taxes, breach of contract, professional liability and other matters. The information set forth in Note 12, Commitments and Contingencies of the notes to our consolidated financial statements included elsewhere in this report 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

Our common stock has been listed and traded on the New York Stock Exchange under the symbol POWR since August 28, 2013. Prior thereto, our common stock was listed and traded on The NASDAQ Global Select Market 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 or the NASDAQ Global Select Market, as applicable, for the periods indicated.

Fiscal Year 2013 Quarters Ended:	High	Low
March 31	\$ 12.74	\$ 7.83
June 30	16.15	11.39
September 30	18.83	13.64
December 31	20.57	15.34
Fiscal Year 2012 Quarters Ended:	High	Low
March 31	\$ 6.97	\$ 5.02
June 30	6.14	4.00
September 30	6.22	4.24
December 31	8.15	5.81

On February 28, 2014, the last sale price of our common stock as reported on the New York Stock Exchange was \$22.73.

Holder

As of February 28, 2014, there were 211 holders of record of our common stock. Such number of record holders 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 we do not anticipate declaring or paying any cash dividends on our common stock in the near future. We currently intend to retain any future earnings to fund the development, operation and growth of our business, the servicing and repayment of any indebtedness, the repurchase of our shares and other business purposes. Future cash dividends, if any, will be determined by our Board of Directors, in its discretion, based upon our earnings, financial condition, cash flow, capital resources, capital requirements, charter restrictions, contractual restrictions including those under our credit facility, and such other factors as our Board of Directors deems relevant.

Issuer Purchases of Equity Securities

On November 1, 2011, our Board of Directors authorized a stock repurchase program providing for the repurchase of up to \$5.0 million in shares of our common stock. On December 3, 2012, our Board of Directors authorized an increase in the stock repurchase program to provide for the repurchase of up to an additional \$5.0 million in shares of our common stock. Our Board of Directors' authorization specifies the maximum dollar amount but not the maximum number of shares to be repurchased. Repurchases of shares can be made from time to time in open market purchases or in privately negotiated transactions. The timing and amount of any shares repurchased are determined in the discretion of our management based on its evaluation of market conditions and other factors. On December 3, 2012, in connection with the increase in the size of the stock repurchase plan, our Board of Directors extended the plan to continue for a period of up to 24 months thereafter, although the plan may be suspended from time to time or discontinued at any time, or the plan may be renewed or further extended, in the discretion of our Board of Directors.

During the three months ended December 31, 2013, we did not repurchase any shares of our common stock under our stock repurchase program. As of December 31, 2013, we were authorized to purchase a maximum of \$5.1 million of shares of our common stock under our stock repurchase program.

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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, 2013, 2012 and 2011, and the consolidated balance sheet data as of December 31, 2013 and 2012, 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, 2010 and 2009, and the consolidated balance sheet data as of December 31, 2011, 2010 and 2009, 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 elsewhere in this report.

Consolidated Statements of Income Data:	Year Ended December 31,				
	2013	2012	2011	2010	2009
	(In thousands, except per share amounts)				
Revenues	\$ 270,234	\$ 162,039	\$ 130,015	\$ 96,209	\$ 85,426
Cost of sales (excluding depreciation and amortization)	198,651	110,953	89,321	60,605	54,136
Gross profit	71,583	51,086	40,694	35,604	31,290
Operating expenses:					
General and administrative	47,071	36,201	33,652	28,262	23,586
Selling, marketing and service	7,381	5,560	4,651	5,104	3,927
Depreciation and amortization	7,287	4,780	3,423	2,641	2,092
Restructuring charges	1,205	2,675			
Total operating expenses	62,944	49,216	41,726	36,007	29,605
Operating income (loss)	8,639	1,870	(1,032)	(403)	1,685
Other income and (expenses):					
Gain on sale of unconsolidated affiliate		1,439	21,873		
Equity income			1,559	3,182	2,167
Management fees			282	583	447
Interest income and other income	81	88	98	99	161
Interest expense	(817)	(449)	(575)	(619)	(607)
Income before income taxes	7,903	2,948	22,205	2,842	3,853
Income tax expense	3,672	850	3,134	1,130	615
Income from continuing operations	4,231	2,098	19,071	1,712	3,238
Income from discontinued operations (1)		78	4,133	1,597	1,067
Net income	4,231	2,176	23,204	3,309	4,305

Net (income) loss attributable to noncontrolling interest	181	902	846	153	(1,512)
Net income attributable to PowerSecure International, Inc.	\$ 4,412	\$ 3,078	\$ 24,050	\$ 3,462	\$ 2,793

- (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 2013 have been reclassified to conform to fiscal 2013 presentation. Such reclassifications had no impact on our net income or stockholders' equity.*

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Consolidated Statement of Operations Data (continued):	Year Ended December 31,				
	2013	2012	2011	2010	2009
	(In thousands, except per share amounts)				
Per Share Data:					
Basic earnings per share:					
Income from continuing operations	\$ 0.22	\$ 0.16	\$ 1.05	\$ 0.10	\$ 0.10
Income from discontinued operations	.00	.00	0.22	0.09	0.06
Net income	\$ 0.22	\$ 0.16	\$ 1.27	\$ 0.19	\$ 0.16
Diluted earnings per share:					
Income from continuing operations	\$ 0.22	\$ 0.16	\$ 1.04	\$ 0.10	\$ 0.10
Income from discontinued operations	.00	.00	0.22	0.09	0.06
Net income	\$ 0.22	\$ 0.16	\$ 1.26	\$ 0.19	\$ 0.16
Weighted average common shares outstanding:					
Basic	19,837	18,681	18,877	18,133	17,177
Diluted	20,160	18,818	19,139	18,603	17,343
Consolidated Balance Sheet Data:					
	As of December 31,				
	2013	2012	2011	2010	2009
	(In thousands)				
Cash and cash equivalents	\$ 50,915	\$ 19,122	\$ 24,606	\$ 8,202	\$ 20,169
Working capital	105,750	59,242	69,381	54,514	47,221
Total assets	256,385	159,147	142,575	120,529	111,477
Long-term capital lease obligations	986	1,921	2,807	3,647	4,445
Revolving line of credit and long-term debt	21,563	2,080		5,000	
Total stockholders equity	159,587	110,999	112,462	87,244	79,239

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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.

The following discussion and analysis of our consolidated results of operations for the years ended December 31, 2013, 2012 and 2011, and of our consolidated financial condition as of December 31, 2013 and 2012, 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.

Our Utility and Energy Technologies segment consists of our three product and service offerings: our Distributed Generation products and services, our Utility Infrastructure products and services, and our Energy Efficiency products and services. These three product and service groups are commonly 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 three product and service offerings because they address large unmet market opportunities due to their strong customer value propositions, and because they require unique knowledge and skills that utilize our core competencies. They share a number of common or complementary utility relationships and customer types, common sales and overhead resources, and common facilities.

Our business operates primarily out of our Wake Forest, North Carolina headquarters office, and its operations also include several satellite offices and manufacturing facilities, the largest of which are in the following areas: Raleigh and Greensboro, North Carolina; Atlanta, Georgia; Bethlehem, Pennsylvania; and Stamford, Connecticut. The locations of our sales organization and field employees are generally in close proximity to the utilities and the commercial, industrial and institutional customers they serve. We conduct our business through our wholly-owned subsidiary, PowerSecure, Inc.

We conduct all of our on-going business operations through our Utility and Energy Technologies segment. In 2011, we divested the non-core business operations of our Oil and Gas Services segment, which has ceased operations.

Distributed Generation Solutions

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 solar energy systems provide utilities and their customers with environmentally friendly power to augment their core power requirements.

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 still our predominant model, we sell the Distributed Generation system to the customer. We refer to this as a project-

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based on 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 smaller 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 2013, 86.3% of our Distributed Generation revenues consisted of customer-owned sales, and 13.7% of our Distributed Generation 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 eighteen 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 fifteen 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.

Our 2012 acquisition of PowerSecure Solar provided us with the ability to deliver solar energy systems through our Distributed Generation business platform. These solar energy systems are sold under the project-based , customer-owned model, and we also expect we will own and operate certain systems in the future under a PowerSecure-owned , recurring revenue model.

Utility Infrastructure Solutions

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

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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, 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, which we acquired in October 2013, provides cybersecurity consulting and compliance services to the utility industry. Our team of engineers operates in various locations, with principal offices in Raleigh, North Carolina.

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 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 percentage-of-completion basis as they are completed. 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 Solutions

We deliver Energy Efficiency solutions to assist our customers in the achievement of their energy efficiency goals. We have two primary product and service offerings in our Energy Efficiency Solutions: LED lighting fixtures

and lamps, and energy efficiency upgrades for our ESCO customers. Our LED lighting solutions are primarily focused on the utility, commercial and industrial markets, while our ESCO energy efficiency solutions are focused on serving the ESCO channel. In the future, we plan to bring our LED lighting solutions to our ESCO 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 solutions include our 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 recently realigned and consolidated these operations into Solais, which is now leading all of our LED

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operations, although we may continue to have legacy brands in the marketplace for a period of time. In 2013, we acquired our ESCO solutions, which give us the capability to provide general lighting, building envelope, HVAC and water efficiency solutions to the super ESCOs, which are the largest of the energy service companies and which deliver these energy efficiency solutions to commercial, industrial and institutional facilities.

Our LED lighting products, led by our Solais team and operations, 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. Solais 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, and outdoor lighting.

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 solutions. EnergyLite's products are marketed to customers and utilities directly, and through third party distribution arrangements.

The primary client base for our ESCO products and services include large energy service companies, referred to as super ESCOs. Through our relationships with super ESCOs, we provide facility upgrades for public sector customers, including federal, state and local government agencies and educational institutions. As super 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 a super 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 our super ESCO 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. In the future we plan 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 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 outdoor lighting; 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, the majority of our lights are sold by us directly to the customer, although we also have distributor relationships that serve certain product lines. 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.

Our ESCO energy efficiency revenues are generated through a full range of turn-key services we provide to the super ESCOs. 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 the most appropriate, effective and proven technologies available in the marketplace.

Oil and Gas Services

In 2011, we divested the non-core business operations of our Oil and Gas Services segment. The results of the Oil and Gas Services segment for 2012, which are not material, are included in the "Unallocated Corporate and Other" amounts in the tables below, wherever applicable.

How We Evaluate our Business Performance and Opportunities

Major Qualitative and Quantitative Factors we Consider in the Evaluation of Our Business

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

A significant amount of our Distributed Generation, Utility Infrastructure, and Energy Efficiency 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,

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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 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 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, 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:

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the effects of general economic and financial conditions, including the slow and uncertain economic recovery and the inconsistent capital and credit markets, the potential economic consequences if critical fiscal, deficit and budgetary deadlines are not met, and the potential for economic and market challenges to continue or recur in the future, negatively impacting our business operations and our revenues and net income, 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;

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 PowerSecure Solar, ESCO and Solais;

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;

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, and maintain and increase 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 in this business area, 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 new arrangements we are establishing to source these products and components from vendors in Asia;

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 Utility Infrastructure products and services;

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;

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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;

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;

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.

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 and utility infrastructure projects. To date, the majority of our Utility and Energy Technologies segment revenues have consisted of project-based distributed generation revenues, project-based utility infrastructure 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.

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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.

Recent Developments

On December 30, 2013, through our wholly-owned subsidiary Innovative Electronic Solutions Lighting, LLC, which we refer to as IES, we sold substantially all of IES's manufacturing equipment and parts inventory to Anuva Services, Inc., a North Carolina corporation. The sale of assets was in furtherance of our previously announced plans to restructure and realign our operations to increase operating margins in our Energy Efficiency product and service lines in light of several recent acquisitions. Our recent acquisition of Solais Lighting, Inc., which we refer to as Solais, provided advanced manufacturing and sourcing capabilities which enabled us to streamline our operations and sell the IES manufacturing equipment and parts inventory.

These restructuring and realignment activities, which are designed to integrate and streamline our operations and product offerings primarily within our Energy Efficiency product area, and also to a lesser extent within other areas of our business, include eliminating certain duplicative facilities, re-sourcing from certain of our energy efficiency suppliers, reducing the number of our Energy Efficiency product offerings, and streamlining our overall organization. Overall, these restructuring and realignment actions resulted in a charge of \$4.9 million in the fourth quarter of 2013, of which \$3.7 million was included in our cost of sales. We currently expect to incur an additional charge of approximately \$0.3-1.0 million in the first quarter of 2014 from the remainder of these restructuring and realignment actions, resulting in total restructuring charges in the range of \$5-6 million.

On October 8, 2013, we announced that we acquired substantially all of the assets and business of Encari, LLC, an Illinois limited liability company, which is engaged in the business of providing cybersecurity 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, referred to as NERC, Critical Infrastructure Protection, or CIP, Reliability Standards. The purchase price for this acquisition was \$4.8 million in cash, plus potential additional earn-out consideration based on the income of the acquired Encari business exceeding a threshold for calendar year 2013. Because the threshold was not met, no earn-out consideration was paid.

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**.

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 used, and intend to 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.

In June 2013, we amended our existing credit facility to (1) add a \$25 million, seven year term loan, (2) extend the maturity date of the revolving portion of our credit facility by two years to November 12, 2016, and (3) modify certain covenants and other terms and conditions of the credit agreement. In July 2013, we executed forward interest rate swaps to achieve a fixed interest rate on approximately 80% of the \$25 million term loan, commencing October 1, 2013.

In May 2013, we acquired the minority ownership interests in our majority-owned PowerSecure Solar and IES subsidiaries increasing our ownership interests to 100% in each of these businesses. The purchase price for the 10% PowerSecure Solar minority interest was \$0.2 million in cash. The purchase price for the 33% IES minority interest was 209,060 shares of our common stock, par value \$.01 per share, valued at a total of \$2.9 million at the date of acquisition.

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Also in May 2013, we also acquired 100% of the business and certain assets of Powerline EHV & Safety Training, LLC, which we refer to as PowerLine. The acquired PowerLine capabilities include safety training and enhanced our utility infrastructure safety and training programs. The purchase price for the PowerLine business was \$1.1 million which included a cash payment of \$0.6 million at closing and annual cash installment payments of \$0.1 million payable over the next five years.

In April 2013, we acquired Solais, a Connecticut-based LED lighting company with a proprietary portfolio of LED lamps and fixtures for commercial applications, including retailers. Solais' innovative designs, which are covered by a variety of patents and patents pending, provide 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. The consideration paid by us consisted of approximately \$6.5 million in cash plus 675,160 shares of our common stock, par value \$.01 per share, for an aggregate purchase price of approximately \$15 million. For purposes of the transaction, the shares of common stock that 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 acquisition was completed. For purposes of applying the purchase accounting provisions of the Financial Accounting Standards Board, or FASB, Accounting Standards Codification 805, or ASC 805, *Business Combinations*, 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.

In February 2013, we acquired certain assets, including contracts with customers relating to energy efficiency projects, of the energy services business, referred to as the ESCO business, of Lime Energy Services Co., the operating subsidiary of Lime Energy Co. The acquired ESCO business involves the design, installation and maintenance of energy conservation measures, primarily as a subcontractor to super 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 business serves super 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 purchase price for the acquired ESCO assets and business consisted of approximately \$2.0 million in cash plus the assumption of approximately a negative \$3.6 million net working capital balance. The negative net working capital that we assumed consisted of approximately \$6.3 million in accounts receivable and other current assets and approximately \$10.0 million in trade payables and other debts, liabilities and obligations relating to the acquired business and assumed contracts. In connection with the acquisition, we assumed certain contracts relating to unfinished projects in the acquired business, along with the assumption of the accounts receivables and accounts payables associated with those projects.

Financial Results Highlights

Our consolidated revenues in 2013 of \$270.2 million increased by \$108.2 million, or 66.8%, compared to our consolidated revenues during 2012. The drivers of this year-over-year revenue increase were the across the board increases in revenues in each of our product and service areas: a \$50.9 million, or 83.8%, increase in revenues from Utility Infrastructure products and services; a \$35.2 million, or 46.1%, increase in revenues from Distributed Generation products and services; and a \$22.1 million, or 88.5%, increase in revenues from Energy Efficiency products and services. Overall, \$73.3 million of incremental revenue growth occurred in our existing operations,

representing a 45.2% increase over our consolidated revenues in 2012, and the remaining \$34.9 million of the increase in revenues was due to incremental revenues from our Solais, Encari and ESCO operations which we acquired in 2013. This revenue growth, which is a continuation of our growth in recent years, is the result of our focused strategy of growing our revenues by expanding our product and services lines, our customer and market base, our geographic footprint, and our utility partners.

Our 2013 gross margin as a percentage of revenue decreased to 26.5%, compared to 31.5% in 2012. This year-over-year gross margin decrease was due primarily to the combined effects of a \$3.7 million inventory charge as part of our 2013 business restructuring and realignment activities as well as the overall growth in 2013 of our Utility Infrastructure, PowerSecure Solar, and ESCO energy efficiency revenues, as a percentage of our total revenues, because those operations are generally our lower gross margin product and service categories. In addition,

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we realized inefficiencies in our Utility Infrastructure unit related to the advanced deployment of crews in anticipation of being selected for a significant long-term revenue opportunity with a major new utility partner. As is always the case, variability in our annual gross margins is also caused by regular on-going differences in the mix of specific projects completed in each year.

Our operating expenses during 2013 increased by \$13.7 million, or 27.9%, compared to our operating expenses during 2012. The year-over-year increase in operating expenses was largely due to \$8.4 million of incremental operating expenses during 2013 from our recently acquired Solais, Encari and ESCO operations. The majority of the remaining year-over-year increase in our operating expenses was due to an increase in selling expenses related to our significantly higher revenue and backlog, depreciation and amortization from capital expenditures primarily driven by our investments in Company-owned distributed generation systems, utility infrastructure equipment and acquisition related intangibles, and increases in personnel and equipment to drive and support our growth. The increase in personnel and equipment included expenses to continue to strengthen our safety resources and programs.

As a percentage of revenues, our operating expenses excluding the 2013 and 2012 restructuring charges decreased by 5.9 percentage points in 2013 compared to 2012, driven by our revenue growth significantly outpacing our operating expense growth. This improvement was in part a result of the actions we took in our 2012 cost reduction program. Our recent acquisitions have provided opportunities to further leverage our future operating expenses against future revenues, including opportunities to increase operating margins in our energy efficiency product and service lines. This includes manufacturing and sourcing synergies that our Solais acquisition is expected to bring to our existing LED lighting operations, and other opportunities to rationalize our cost structure.

Our income from continuing operations attributable to PowerSecure International, Inc. shareholders for 2013 was \$4.4 million, or \$0.22 per diluted share, compared to income from continuing operations attributable to PowerSecure International, Inc. shareholders of \$3.0 million, or \$0.16 per diluted share, for 2012.

We had no income or loss from discontinued operations during 2013, and our income from discontinued operations was negligible for 2012. We do not expect to incur any additional income or loss in future periods from our discontinued operations as all of the related assets and liabilities were disposed during 2012.

In total, our consolidated net income attributable to PowerSecure International, Inc. common stockholders for 2013 was \$4.4 million, or \$0.22 per diluted share, which compared to net income attributable to PowerSecure International, Inc. common stockholders of \$3.1 million, or \$0.16 per diluted share, for 2012.

As discussed above under **How We Evaluate our Business Performance and Opportunities-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, 2013, will be indicative of our future results, especially in light of the current economic conditions and unfavorable credit and capital markets.

Table of Contents**Backlog**

As of the date of this report, our revenue backlog expected to be recognized after December 31, 2013 is \$248 million. This backlog number includes revenue related to the new business awards in our press release issued January 6, 2014 and February 20, 2014. This backlog figure compares to the revenue backlog of \$240 million announced in our Quarterly Report on Form 10-Q for the quarter ended September 30, 2013 filed on November 6, 2013, which represented revenue expected to be recognized after September 30, 2013.

Our revenue backlog and the estimated timing of revenue recognition is 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 contracts:

Revenue Backlog expected to be recognized after December 31, 2013

Description		Anticipated Revenue	Estimated Primary Recognition Period
Project-based Revenue	Near term	\$ 118 million	1Q14 through 3Q14
Project-based Revenue	Long term	\$ 58 million	4Q14 through 2016
Recurring Revenue		\$ 72 million	1Q14 through 2020

Revenue Backlog expected to be recognized after December 31, 2013 \$ 248 million

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, and estimates are utilized in the determination of the backlog amounts. 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.

Operating Segments

Our Utility and Energy Technologies segment includes our core business, and is the only segment in which we have on-going business operations. In 2011, we divested the non-core business operations of our Oil and Gas Services segment. The results of our Oil and Gas Services segment for 2012, which are not material, are included in the unallocated Corporate and Other amounts in the tables below, wherever applicable. Our strategic decision to divest the Oil and Gas Services segment has enabled us to invest in and grow our Utility and Energy Technologies segment. All of our on-going operating activities are now conducted through our Utility and Energy Technologies segment.

Our reported segments are strategic business units with different products and services which serve different customer bases. They are separate because each segment has different customer sets, requires different technology and marketing strategies, and has separate service delivery and management platforms. Our operating segments also represent components for which discrete financial information is available and is (or was, in the case of our Oil and

Gas Services segment) reviewed regularly by the chief operating decision-maker, or decision-making group, to evaluate performance and make operating decisions.

Utility and Energy Technologies

Our Utility and Energy Technologies segment includes our three product and service offerings: our Distributed Generation products and services, our Utility Infrastructure products and services, and our Energy Efficiency products and services. These three product and service groupings are commonly focused on serving the needs of utilities and their commercial, institutional and industrial customers to help them generate, deliver, and utilize electricity more efficiently. They share common or complementary utility relationships and customer types, common sales and overhead resources, and facilities. However, we discuss and distinguish our Utility and Energy

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Technologies business among these product and service groups due to the unique market needs they are addressing, and the distinct technical disciplines and specific capabilities required for us to deliver them, including personnel, technology, engineering, and intellectual capital. Our Utility and Energy Technologies segment is operated through our largest wholly-owned subsidiary, PowerSecure, Inc.

Oil and Gas Services

In 2011, we divested the non-core business operations of our Oil and Gas Services segment. The results of the Oil and Gas Services segment for 2012, which are not material, are included in the Unallocated Corporate and Other column in the tables below.

Results of Operations

The following discussion regarding segment revenues, gross profit, costs and expenses, and other income and expenses for 2013 compared to 2012 and for 2012 compared to 2011 are entirely attributable to our Utility and Energy Technologies segment, unless otherwise provided, and excludes revenues, gross profit, and costs and expenses of our PowerPackages business and operations, which were discontinued in 2011, and of our Southern Flow subsidiary, which we sold in January 2011, the financial results of both of which are classified as discontinued operations in our financial statements.

2013 Compared to 2012**Revenues**

Our consolidated revenues are generated entirely by our sales and services provided by our Utility and Energy Technologies segment. We currently provide a variety of products and services, including Distributed Generation products and services, Utility Infrastructure products and services, and Energy Efficiency products. The following table summarizes our revenues by these three groupings for the periods indicated (dollars in thousands):

	Year Ended December 31,		Period-over-Period Difference	
	2013	2012	\$	%
Utility and Energy Technologies:				
Distributed Generation	\$ 111,536	\$ 76,352	\$ 35,184	46.1%
Utility Infrastructure	111,654	60,735	50,919	83.8%
Energy Efficiency	47,044	24,952	22,092	88.5%
Total	\$ 270,234	\$ 162,039	\$ 108,195	66.8%

Our consolidated revenues in 2013 of \$270.2 million increased \$108.2 million, or 66.8%, compared to 2012, due to an increase in sales in each of our product and service categories: Distributed Generation, Utility Infrastructure and Energy Efficiency. This revenue growth, which is a continuation of our growth in recent years, includes \$73.3 million of incremental revenue growth in our existing operations and \$34.9 million of incremental revenues from our recently acquired Solais, Encari and ESCO operations. This revenue growth is the result of our focused strategy of growing our revenues by expanding our product and services lines, our customer and market base, our geographic footprint and our utility partners.

Our revenues are significantly affected by the number, size and timing of our Distributed Generation, 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. The increase in our revenues in 2013 over 2012 consisted of a \$50.9 million, or 83.8%, increase in revenues from Utility Infrastructure products and services, a \$35.2 million, or 46.1%, increase in revenues from Distributed Generation products and services, and a \$22.1 million, or 88.5%, increase in revenues from Energy Efficiency products and services. The year-over-year increase in our Utility Infrastructure product sales and services was due to an increase in the number of utilities that we service, and an increase in those utilities' spending levels on transmission and distribution system maintenance and construction projects, as well as energy companies spending on electrical infrastructure to support oil and gas production. The year-over-year increase in our Distributed Generation product sales and services was driven by increases in customer-owned turn-key project sales and, to a

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lesser extent, increases in solar distributed generation project sales. The year-over-year increase in our Energy Efficiency revenues in 2013 compared to 2012 was driven by an additional \$34.2 million in Energy Efficiency revenues from our ESCO business we acquired in February 2013 and from Solais Lighting acquired in April 2013, partially offset by a decrease in revenues from EfficientLights lighting products from our existing grocery customers.

Our future revenues will depend on the continuing recovery of the domestic economy, the health of the credit markets and the continuing levels of customer spending for capital improvements and energy efficiency projects, as well as our ability to secure new significant purchase orders and to realize the growth opportunities provided by our recent acquisitions and any future acquisitions. The amount and timing of our future revenues will also be affected by the amount and proportion of revenues generated by future PowerSecure-owned distributed generation recurring revenue projects, which result in revenue being recognized over a longer period. We are particularly susceptible to changes in economic conditions because our product offerings are generally considered discretionary investment items by our customers, who may delay or defer large sales orders, depending on their business requirements and capital budgets.

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 along with our gross profit and gross profit margin for the periods indicated (dollars in thousands):

	Year Ended December 31,		Period-over-Period Difference	
	2013	2012	\$	%
Utility and Energy Technologies:				
Cost of Sales (excluding depreciation and amortization)	\$ 198,651	\$ 110,953	\$ 87,698	79.0%
Gross Profit	\$ 71,583	\$ 51,086	\$ 20,497	40.1%
Gross Profit Margin	26.5%	31.5%		

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 our 2013 restructuring and realignment actions. The 79.0% increase in our consolidated cost of sales and services for 2013 compared to 2012 was driven by the increase in costs associated with the 66.8% increase in sales, the \$3.7 million write-down of Energy Efficiency inventory in connection with our 2013 restructuring and realignment actions that is included in cost of sales, and other factors discussed below leading to the reduction in our gross profit margin.

An important driver in the period-over-period change in our gross profit margin is the relative gross margins we generally earn in each of our Distributed Generation, Utility Infrastructure and Energy Efficiency product and service categories. Our Distributed Generation products and services generally yield gross profit margins in the 20-45% range (with our Solar Distributed Generation revenues having gross margins that are generally at the lower end of this range), our Utility Infrastructure products and services generally yield gross profit margins in the 5-30% range, and our Energy Efficiency products generally yield gross margins in the 15-40% range (with our ESCO revenues having gross margins that are generally at the lower end of this range). The gross profit margin we realize within these ranges 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

product lines affect our consolidated gross profit margin results.

Our gross profit increased \$20.5 million, or 40.1%, in 2013 compared to 2012. As a percentage of revenue, our gross profit margin in 2013 was 26.5%, a decrease of 5.0 percentage points compared to 2012. Our lower gross profit margin in 2013 compared to 2012 was due to the \$3.7 million Energy Efficiency inventory write-down, in connection with our 2013 restructuring and realignment actions, which is included in cost of sales, as well as an increase in the amount and percentage of Utility Infrastructure, PowerSecure Solar, and ESCO energy efficiency revenues, which are generally our lower gross margin product and services, in 2013. In addition, we realized inefficiencies in our Utility Infrastructure unit in 2013 related to the advanced deployment of crews in anticipation of being selected for a significant long-term revenue opportunity with a major new utility partner. We anticipate some continued inefficiencies from these excess crews, as well as some continued inefficiencies in our Energy

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Efficiency operations due to on-going realignment actions, to negatively impact our gross margins during the first quarter of 2014. As is always the case, variability in our gross margins is also caused by regular on-going differences in the mix of specific projects completed in each year. In the near-term, we expect our total gross margins will be in the mid to upper 20%-range as we continue to realize strong growth in these lower margin products and service lines. Over the long-term, we expect that our gross profit margins will increase modestly over time because of anticipated greater productivity, operations and manufacturing efficiencies, improvements in technology, and growth in our higher-margin recurring revenue projects.

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 allocation of revenue among each of our Distributed Generation, Utility Infrastructure and Energy Efficiency product and service categories, and products and services within these categories, which have different gross profit margins;

our ability to improve our operating efficiency and benefit from economies of scale, including the realignment of our Energy Efficiency operations and our efforts 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 mix of higher and lower margin projects, products and services, and the impact of new products and technologies on our pricing and volumes;

the impact of competition on our volumes or pricing;

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

our ability to manage our Utility Infrastructure labor and asset costs during periods when work assignments, and therefore revenue, is lower or when our crews are in-between work assignments;

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 we expect to generate 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 margin increases from our recently acquired operations that have lower gross margin profiles, such as PowerSecure Solar and ESCO energy efficiency operations;

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

other factors described below under **Fluctuations** .

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 as well as our movement to an expected higher percentage of recurring revenue projects. Moreover, our gross revenues are likely to fluctuate from quarter to quarter and from year to year, as discussed in **How We Evaluate our Business Performance and Opportunities-Uncertainties, Trends and Risks that can cause Fluctuations in our Operating Results** . Accordingly, there is no assurance that our future gross profit margins will improve or even remain at historic levels in the future, and will likely decrease if revenues decrease.

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

	Year Ended December 31,		Period-over-Period Difference	
	2013	2012	\$	%
Consolidated Operating Expenses:				
General and administrative	\$ 47,071	\$ 36,201	\$ 10,870	30.0%
Selling, marketing and service	7,381	5,560	1,821	32.8%
Depreciation and amortization	7,287	4,780	2,507	52.4%
Restructuring charges	1,205	2,675	(1,470)	(55.0)%
Total	\$ 62,944	\$ 49,216	\$ 13,728	27.9%

Costs related to personnel, including wages, benefits, stock compensation, bonuses and commissions, are the most significant component of our operating expenses. During 2013, we incurred an aggregate of \$8.4 million of incremental operating expenses from our ESCO, Solais and Encari operations, which we acquired in 2013. In addition, our increase in operating costs was driven by an increase in selling expenses related to our significantly higher revenue and backlog, additional depreciation and amortization from capital expenditures driven by capital expenditures for Company-owned distributed generation systems, utility infrastructure equipment and acquisition related intangibles, and increases in personnel and equipment to drive and support our growth. The increase in personnel and equipment includes expenses to continue to strengthen our safety resources and programs.

Our operating expenses, excluding the 2013 and 2012 restructuring charges, as a percentage of our revenues decreased by 5.9 percentage points in 2013 compared to 2012, driven by our revenue growth significantly outpacing our operating expense growth. This favorable reduction resulted in part from the actions we took in our 2012 cost reduction program. Our recent acquisitions provided additional opportunities to restructure and realign our operations to increase operating margins in our Energy Efficiency product and service lines in particular, as well as other cost reduction opportunities. This includes manufacturing and sourcing synergies that our Solais team is working to bring to our existing LED lighting operations, and other cost reduction opportunities.

During the fourth quarter 2013, we initiated a business realignment program, taking actions to realign our operations to gain cost and performance efficiencies. See **Restructuring Charges** below. These actions, which primarily involve our Energy Efficiency operations, consisted of the sale of manufacturing equipment and parts inventory, 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, sourcing, warehousing and distribution activities. As a result of these 2013 business realignment initiatives, we incurred pre-tax restructuring charges totaling \$4.9 million during 2013. 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 \$3.7 million during the year ended December 31, 2013 are included in cost of sales. The expenses associated with the remaining 2013 business realignment charges totaled \$1.2 million during 2013. We expect to incur additional charges during the first quarter 2014 in the amount of \$0.3-1.0 million associated with lease

abandonment, employee severance and potential additional inventory write-offs.

In the longer term, we expect our operating costs to grow to support the growth of our business, although at a lower growth rate than revenues, and that growth will be dependent on the future success of our product and service lines, future economic and market conditions, and any future acquisitions. Accordingly, the timing and the amount of future increases in operating expenses will depend on the timing and level of future increases in our revenues and revenue backlog, as well as the impacts of economic and business conditions and capital markets conditions. We cannot provide any assurance as to if, when, how much or for how long economic conditions will continue to improve, or the effects of future economic conditions on our revenues, expenses or net income.

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 general and administrative costs. The 30.0% increase in our consolidated

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general and administrative expenses in 2013, as compared 2012, was due primarily to an increase in personnel, rent, travel and other expenses to support our increasing levels of revenue and our investments in new business opportunities. Our 2013 general and administrative expenses, as a percentage of our revenues, decreased by 4.9 percentage points compared to 2012, driven by our strong revenue growth and also positively impacted by our cost reduction initiative executed in 2012. The following table provides further detail of our general and administrative expenses (dollars in thousands):

	Year Ended December 31,		Period-over-Period Difference	
	2013	2012	\$	%
Segment G&A Expenses:				
Utility and Energy Technologies:				
Personnel costs	\$ 27,594	\$ 20,449	\$ 7,145	34.9%
Vehicle lease and rental	3,026	2,698	328	12.2%
Insurance	1,402	1,243	159	12.8%
Rent-office and equipment	1,448	1,042	406	39.0%
Professional fees and consulting	857	530	327	61.7%
Travel	2,314	1,285	1,029	80.1%
Product development	230	538	(308)	(57.2)%
Other	4,345	3,432	913	26.6%
Unallocated Corporate and Other	5,855	4,984	871	17.5%
Total	\$ 47,071	\$ 36,201	\$ 10,870	30.0%

The increase in each of the expense categories above during 2013 compared to 2012 was incurred primarily as a result of the incremental general and administrative expenses associated with our recently acquired ESCO, Solais and Encari operations. Over the long-term, we expect our expenses in these areas to increase, although at lower growth rates than our revenues, as we strive to leverage our cost structure and deliver higher operating profit margins.

Unallocated corporate general and administrative expenses include similar personnel costs as described above as well as costs incurred for the benefit of all of our business operations, such as acquisition costs, legal, Sarbanes-Oxley compliance, public company reporting, director expenses, accounting costs, and stock compensation expense on our stock options and restricted stock grants which we do not allocate to our operating segments. The increase in our unallocated corporate and other general and administrative expenses during 2013 as compared to 2012 was due primarily to \$0.7 million of acquisition costs incurred in connection with our acquisitions of the ESCO, Solais, PowerLine and Encari operations, compared to \$0.1 million of such costs 2012. We expect our unallocated corporate costs for 2014 to remain at similar levels to those incurred during 2013, and increase modestly over time.

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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 32.8% increase in selling, marketing and service expenses in 2013, as compared to 2012, was due to increases in compensation, travel, advertising and promotion, driven by our strong revenue growth and revenue backlog. In addition, our increases in revenue and customers resulted in an increase in bad debt expenses. The following table provides further detail of our segment selling, marketing and service expenses (dollars in thousands):

	Year Ended		Period-over-Period	
	December 31, 2013	2012	Difference \$	%
Segment Selling, Marketing and Service:				
Utility and Energy Technologies:				
Salaries	\$ 2,846	\$ 2,987	\$ (141)	(4.7)%
Commission	1,795	1,000	795	79.5%
Travel	1,265	759	506	66.7%
Advertising and promotion	1,134	626	508	81.2%
Bad debt expense (recovery)	341	188	153	81.4%
Total	\$ 7,381	\$ 5,560	\$ 1,821	32.8%

In the future, we expect our near-term and long-term selling, marketing and services expenses to grow in order to reflect, drive and support future growth.

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. The 52.4% increase in depreciation and amortization expenses in 2013, as compared to 2012, primarily reflects increased depreciation resulting from capital investments during 2012 and 2013, as well as amortization expense associated with acquisition related intangible assets. These capital investments are investments in PowerSecure-owned distributed generation systems for projects deployed under our recurring revenue model as well as investments in Utility Infrastructure equipment to support its growth. In the future, we expect our near-term and long-term depreciation and amortization expenses to grow reflecting depreciation on additional capital expenditures as well as expense associated with amortization of intangible assets acquired in connection with our recent acquisitions.

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.

During 2012, we initiated actions to restructure and reorganize the organization to streamline operations and set the framework for a more scalable and long-term cost structure. The goal of this 2012 cost reduction program was to reduce expenses as a percentage of revenues and drive improvements in operating margins as revenues grow. As a result of these cost reduction initiatives, we incurred pre-tax restructuring and cost reduction plan charges of \$2.7 million during 2012.

During 2013, our 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 to

realign our operations to gain cost and performance efficiencies. These actions, which primarily involve our Energy Efficiency operations, 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. As a result of these 2013 business realignment initiatives, we incurred pre-tax restructuring charges totaling \$4.9 million in 2013. These charges consisted of loss on the disposal of IES 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 \$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 in 2013. We expect to incur additional charges during the first quarter of 2014 in the amount of \$0.3-1.0 million associated with lease abandonment, employee severance and potential additional inventory write-offs.

Table of Contents*Other Income and Expenses*

Our other income and expenses include interest income, interest expense, gain on sale of unconsolidated affiliate and income taxes. The following table sets forth our other income and expenses for the periods indicated (dollars in thousands):

	Year Ended December 31,		Period-over-Period Difference	
	2013	2012	\$	%
Other Segment Income and (Expenses):				
Utility and Energy Technologies:				
Interest income and other income	\$	\$	\$	n/m
Interest expense	(218)	(260)	42	(16.2)%
Segment total	(218)	(260)	42	
Unallocated Corporate and Other:				
Gain on sale of unconsolidated affiliate		1,439	(1,439)	(100.0)%
Interest income and other income	81	88	(7)	(8.0)%
Interest expense	(599)	(189)	(410)	216.9%
Income tax expense	(3,672)	(850)	(2,822)	332.0%
Segment total	(4,190)	488	(4,678)	
Total	\$ (4,408)	\$ 228	\$ (4,636)	

Interest Income and Other Income. Interest income and other income consists primarily of interest we earn on the interest-bearing portion of our cash and cash equivalent balances. In total, the amount of interest income and other income during 2013 was consistent compared to 2012. Our future interest income will depend on our cash and cash equivalent balances, which will increase and decrease depending upon our profit, capital expenditures, acquisitions, and our working capital needs, and future interest rates.

Interest Expense. Interest expense consists of interest and finance charges on the revolving portion of our credit facility, term loans and capital leases. In total, interest expense increased \$0.4 million during 2013, as compared to 2012. The increase in our interest expense reflects interest on our new \$25.0 million term loan, partially offset by reduction in balances outstanding on our capital lease obligation and our prior existing term loan due to regular payments made on those obligations over the year. We expect our future interest and finance charges to remain level with the amount incurred during the second half of 2013 and to decrease slightly over time as the balances of our borrowings are reduced by regular monthly and quarterly installments.

Gain on Sale of Unconsolidated Affiliate. Gain on sale of unconsolidated affiliate included in our Unallocated Corporate and Other segment consists of our minority ownership share of the gain recognized by our WaterSecure operations related to the sale of substantially all of the assets and business of MM 1995-2 Business Trust, which we refer to as MM 1995-2, in June 2011. At the time of the sale, MM 1995-2 deferred \$4.0 million of the gain until such time as certain contingencies associated with the sale were eliminated and the associated escrowed sales proceeds were received. These contingencies expired and were resolved in the second quarter 2012 and \$3.9 million of the

funds that were placed into escrow were released. In June 2012, we received our share of the escrowed sales proceeds and recorded a corresponding gain in the amount of \$1.4 million during 2012. There was no similar gain in 2013.

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 of 46.5% in 2013 increased compared to the 28.8% effective tax rate in 2012. The increase in the effective tax rate reflects the reduction in deferred tax assets associated with stock compensation and net operating loss carryforwards due to our consistent profitability. Our overall income tax expense in 2013 increased, as compared to 2012, due to the income tax expense associated with the increase in our pre-tax income and an increase in our effective tax rate.

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Non-controlling Interest. 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, we 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. As a result of these non-controlling interest acquisitions, both PowerSecure Solar and IES are now wholly-owned subsidiaries and there will be no non-controlling interest in those entities after the acquisition dates.

Until the acquisitions of the non-controlling interests described above, the non-controlling ownership interest in the income or loss of IES and PowerSecure Solar was reflected as a reduction or addition to net income or losses to derive income attributable to PowerSecure International stockholders. The decrease in the addition for the non-controlling interest in the loss of our majority-owned subsidiaries in 2013, as compared 2012, is a result of our acquisition of the non-controlling interests in May 2013.

2012 Compared to 2011*Revenues*

The following table summarizes our Utility and Energy Technologies segment revenues for the periods indicated (dollars in thousands):

	Year Ended December 31,		Period-over-Period Difference	
	2012	2011	\$	%
Utility and Energy Technologies:				
Distributed Generation	\$ 76,352	\$ 60,073	\$ 16,279	27.1%
Utility Infrastructure	60,735	47,131	13,604	28.9%
Energy Efficiency	24,952	22,811	2,141	9.4%
Total	\$ 162,039	\$ 130,015	\$ 32,024	24.6%

Our consolidated revenues for 2012 increased \$32.0 million, or 24.6%, compared to 2011 due to an across-the-board increase in the sales in each of our Utility and Energy Technologies segment products and services: Distributed Generation, Utility Infrastructure, and Energy Efficiency revenues.

Our Utility and Energy Technologies segment distributed generation revenues are significantly affected by the number, size and timing of our Distributed Generation and Utility Infrastructure 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 Distributed Generation sales have fluctuated significantly in the past and are expected to continue to fluctuate significantly in the future. The increase in our Utility and Energy Technologies segment revenues in 2012 over 2011 consisted of a \$16.3 million, or 27.1%, increase in revenues from Distributed Generation products and services, a \$13.6 million, or 28.9%, increase in revenues from Utility Infrastructure products and services, and a \$2.1 million, or 9.4%, increase in revenues from Energy Efficiency products. The year-over-year increase in our Distributed Generation product sales and services was driven by increases in customer-owned turn-key project sales, increases in solar distributed generation project sales from the

acquisition of PowerSecure Solar in June 2012, and an increase in our PowerSecure-owned recurring revenue systems sales. The year-over-year increase in our Utility Infrastructure product sales and services was due to an increase in the number of utilities that we service, and an increase in those utilities' spending levels on transmission and distribution system maintenance and construction. The year-over-year increase in our Energy Efficiency revenues in 2012 compared to 2011 primarily reflects an increase in the sales from our growing portfolio of LED lighting products as well as enhanced market penetration generating a larger base of customers.

Table of Contents*Gross Profit and Gross Profit Margin*

The following tables summarizes our Utility and Energy Technologies segment cost of sales along with our segment gross profit and gross profit margin for the periods indicated (dollars in thousands):

	Year Ended December 31,		Period-over-Period Difference	
	2012	2011	\$	%
Utility and Energy Technologies:				
Cost of Sales	\$ 110,953	\$ 89,321	\$ 21,632	24.2%
Gross Profit	\$ 51,086	\$ 40,694	\$ 10,392	25.5%
Gross Profit Margin	31.5%	31.3%		

Cost of sales and services include materials, personnel and related overhead costs incurred to manufacture products and provide services. The 24.2% increase in our consolidated cost of sales and services for 2012 compared to 2011, was driven by the increase in costs associated with the 24.6% increase in sales, together with the factors discussed below leading to the improvement in our gross profit margin.

Our Utility and Energy Technologies segment gross profit increased \$10.4 million, or 25.5%, in 2012 compared to 2011. As a percentage of revenue, our Utility and Energy Technologies segment gross profit margin in 2012 was 31.5%, an increase of 0.2 percentage points compared to 2011. An important driver in the period-over-period change in our gross profit margin is the relative gross margins we generally earn in each of our Distributed Generation, Utility Infrastructure and Energy Efficiency product and service categories. Our Distributed Generation products and services generally yield gross profit margins in the 25-45% range, our Utility Infrastructure products and services generally yield gross profit margins in the 5-30% range, and our Energy Efficiency products generally yield gross margins in the 20-40% range. The gross profit margin we realize within these ranges 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 product lines affect our consolidated gross profit margin results. Our gross profit margin improvement in 2012 compared to 2011 was driven largely by a higher percentage of revenues from our higher margin products and services. As is always the case, variability in our gross margins is also caused by regular on-going differences in the mix of specific projects completed in each quarter. In the long-term, we expect that gross profit margins for this segment will increase somewhat because of anticipated greater productivity, operations and manufacturing efficiencies, improvements in technology, and growth in our higher-margin recurring revenue projects.

Operating Expenses

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

	Year Ended December 31,		Period-over-Period Difference	
	2012	2011	\$	%
Consolidated Operating Expenses:				
General and administrative	\$ 36,201	\$ 33,652	\$ 2,549	7.6%

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Selling, marketing and service	5,560	4,651	909	19.5%
Depreciation and amortization	4,780	3,423	1,357	39.6%
Restructuring charges	2,675		2,675	n/m
Total	\$ 49,216	\$ 41,726	\$ 7,490	18.0%

Costs related to personnel, including wages, benefits, stock compensation, bonuses and commissions, are the most significant component of our operating expenses. During 2012, a total of \$2.7 million of the year-over-year increase in operating expenses is due to costs incurred in connection with the restructuring and cost reduction program actions we took to reduce our costs, streamline our organization, and set the framework to improve the scalability of our cost structure as we grow revenues. During 2012, we also incurred \$1.4 million of incremental

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operating expenses at our PowerSecure Solar operations which we acquired in June 2012 and we also incurred incremental depreciation expense related to our capital expenditures, primarily driven by capital expenditures for our Company-owned distributed generation systems and equipment for our Utility Infrastructure operations. During 2012, we also incurred incremental expenses as a result of the expansion of each of our Distributed Generation, Utility Infrastructure, and Energy Efficiency product and service areas. These incremental investments support higher levels of revenue, new product and customer development, engineering, personnel and equipment, as well as additional sales and marketing activities. Our operating expenses for 2012, as a percentage of our revenues, decreased by 1.7 percentage points compared to 2011, and our 2012 operating expenses excluding the restructuring charges, as a percentage of our revenues, decreased by 3.4 percentage points compared to 2011, as we leveraged our operating expenses against a greater level of revenues year-over-year.

General and Administrative Expenses. The 7.6% increase in our consolidated general and administrative expenses in 2012, as compared to 2011, was due primarily to an increase in personnel, vehicle, insurance, rent, travel and other expenses to support our increasing levels of revenue and investments in new business opportunities. The following table provides further detail of our general and administrative expenses by segment (dollars in thousands):

	Year Ended		Period-over-Period	
	December 31, 2012	2011	Difference \$	%
Segment G&A Expenses:				
Utility and Energy Technologies:				
Personnel costs	\$ 20,449	\$ 19,548	\$ 901	4.6%
Vehicle lease and rental	2,698	2,351	347	14.8%
Insurance	1,243	638	605	94.8%
Rent-office and equipment	1,042	832	210	25.2%
Professional fees and consulting	530	688	(158)	(23.0)%
Travel	1,285	1,013	272	26.9%
Product development	538	669	(131)	(19.6)%
Other	3,432	2,693	739	27.4%
Oil and Gas Services				n/m
Unallocated Corporate Costs	4,984	5,220	(236)	(4.5)%
Total	\$ 36,201	\$ 33,652	\$ 2,549	7.6%

The increase in our personnel, vehicle, insurance, rent, travel, and other expenses during 2012 compared to 2011 was incurred primarily as a result of \$1.4 million of incremental costs incurred at our PowerSecure Solar operations which we acquired in June 2012.

Unallocated corporate general and administrative expenses decreased year-over-year primarily due to a reduction in stock compensation expense partially offset by costs incurred in connection with the acquisition of our PowerSecure Solar operations.

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Selling, Marketing and Service Expenses. The 19.5% increase in selling, marketing and service expenses in 2012, as compared to 2011, was due to increases in compensation, travel, and advertising and promotion expenses, as well as additional expenses related to the PowerSecure Solar acquisition. The following table provides further detail of our segment selling, marketing and service expenses (dollars in thousands):

	Year Ended		Period-over-Period	
	December 31, 2012	2011	Difference \$	%
Segment Selling, Marketing and Service:				
Utility and Energy Technologies:				
Salaries	\$ 2,987	\$ 2,333	\$ 654	28.0%
Commission	1,000	1,282	(282)	(22.0)%
Travel	759	575	184	32.0%
Advertising and promotion	626	397	229	57.7%
Bad debt expense (recovery)	188	64	124	193.8%
Oil and Gas Services				n/m
Total	\$ 5,560	\$ 4,651	\$ 909	19.5%

Depreciation and Amortization Expenses. The 39.6% increase in depreciation and amortization expenses in 2012, as compared to 2011, primarily reflects increased depreciation and amortization resulting from capital investments at our Utility and Energy Technologies segment during 2011. These capital investments are primarily investments in PowerSecure-owned distributed generation systems for projects deployed under our recurring revenue model, and investments in equipment for our Utility Infrastructure operations.

Restructuring Charges. During 2012, management initiated actions to restructure and reorganize the organization to streamline operations and set the framework for a more scalable and long-term cost structure. The goal of this cost reduction program is to reduce expenses as a percentage of revenues and drive improvements in operating margins as revenues grow. As a result of these cost reduction initiatives, we incurred pre-tax restructuring charges of \$2.7 million during 2012.

Table of Contents*Other Income and Expenses*

Our other income and expenses include the gain on the sale of our WaterSecure operations, management fees and equity income earned by our Oil and Gas Services segment as managing trustee of MM 1995-2 relating to the WaterSecure operations, interest income, interest expense and income taxes. The following table sets forth our other income and expenses for the periods indicated, by segment (dollars in thousands):

	Year Ended December 31,		Period-over-Period Difference	
	2012	2011	\$	%
Other Segment Income and (Expenses):				