POWERSECURE INTERNATIONAL, INC.
Form 10-Q
August 07, 2013
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 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 1-12014

POWERSECURE INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Delaware	**84-1169358**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**
1609 Heritage Commerce Court	
Wake Forest, North Carolina	**27587**
(Address of principal executive offices)	**(Zip code)**

(919) 556-3056

(Registrant s telephone number, including area code)

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

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

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

Large accelerated filer	¨	Accelerated filer	x
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 Act). Yes ¨ No x

As of August 1, 2013, 19,323,606 shares of the issuer s Common Stock were outstanding.

Table of Contents

POWERSECURE INTERNATIONAL, INC.

FORM 10-Q

For the Quarterly Period Ended June 30, 2013

TABLE OF CONTENTS

Table of Contents

PART I.

FINANCIAL INFORMATION

Item 1. Financial Statements

POWERSECURE INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (unaudited)

(in thousands, except share data)

	June 30, 2013	December 31, 2012
Assets		
Current Assets:		
Cash and cash equivalents	$ 26,653	$ 19,122
Trade receivables, net of allowance for doubtful accounts of $531 and $336, respectively	74,526	57,147
Inventories	28,576	20,327
Income taxes receivable		592
Deferred tax asset, net	803	803
Prepaid expenses and other current assets	1,440	1,285
Total current assets	131,998	99,276
Property, plant and equipment:		
Equipment	52,713	48,447
Furniture and fixtures	460	375
Land, building and improvements	5,996	5,907
Total property, plant and equipment, at cost	59,169	54,729
Less accumulated depreciation and amortization	15,008	12,152
Property, plant and equipment, net	44,161	42,577
Other assets:		
Goodwill	28,073	12,884
Restricted annuity contract	2,484	2,447
Intangible rights and capitalized software costs, net of accumulated amortization of $4,165 and $3,588, respectively	6,870	1,328
Other assets	1,227	635
Total other assets	38,654	17,294
Total Assets	$ 214,813	$ 159,147

See accompanying notes to consolidated financial statements.

Table of Contents

POWERSECURE INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (unaudited)

(in thousands, except share data)

	June 30, 2013	December 31, 2012
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 25,364	$ 14,150
Accrued and other liabilities	31,881	23,887
Accrued restructuring and cost reduction liabilities	360	709
Income taxes payable	983	
Current unrecognized tax benefit	242	242
Current portion of long-term debt	3,731	160
Current portion of capital lease obligation	910	886
Total current liabilities	63,471	40,034
Long-term liabilities:		
Revolving line of credit		
Long-term debt, net of current portion	23,429	2,080
Capital lease obligation, net of current portion	1,460	1,921
Deferred tax liability, net	57	955
Unrecognized tax benefit	640	640
Other long-term liabilities	2,627	2,518
Total long-term liabilities	28,213	8,114
Commitments and contingencies (Notes 8 and 10)		
Stockholders Equity:		
PowerSecure International stockholders equity:		
Preferred stock undesignated, $.01 par value; 2,000,000 shares authorized; none issued and outstanding		
Preferred stock Series C, $.01 par value; 500,000 shares authorized; none issued and outstanding		
Common stock, $.01 par value; 50,000,000 shares authorized; 19,320,606 and 18,202,548 shares issued and outstanding, respectively	193	182
Additional paid-in-capital	122,465	112,738
Retained earnings (deficit)	471	(2,361)
Total PowerSecure International, Inc. stockholders equity	123,129	110,559
Non-controlling interest		440
Total stockholders equity	123,129	110,999
Total Liabilities and Stockholders Equity	$ 214,813	$ 159,147

See accompanying notes to consolidated financial statements.

Table of Contents

POWERSECURE INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	**2012**	**2013**	**2012**
Revenues	$ 70,187	$ 37,867	$ 115,144	$ 71,052
Cost of sales	50,304	25,663	81,521	49,293
Gross profit	19,883	12,204	33,623	21,759
Operating expenses:				
General and administrative	12,511	9,093	22,343	17,738
Selling, marketing and service	2,105	1,366	3,490	2,424
Depreciation and amortization	1,809	1,136	3,265	2,221
Total operating expenses	16,425	11,595	29,098	22,383
Operating income (loss)	3,458	609	4,525	(624)
Other income and (expenses):				
Gain on sale of unconsolidated affiliate		1,439		1,439
Interest income and other income	19	23	40	45
Interest expense	(130)	(116)	(235)	(224)
Income before income taxes	3,347	1,955	4,330	636
Income tax expense	1,305	621	1,679	228
Income from continuing operations	2,042	1,334	2,651	408
Discontinued operations (Note 6):				
Income from operations, net of tax		32		67
Gain on disposal, net of tax				
Income from discontinued operations, net of tax		32		67
Net income	2,042	1,366	2,651	475
Net loss attributable to non-controlling interest	57	277	181	565
Net income attributable to PowerSecure International, Inc.	$ 2,099	$ 1,643	$ 2,832	$ 1,040
Amounts attributable to PowerSecure International, Inc. common stockholders:				
Income from continuing operations, net of tax	$ 2,099	$ 1,611	$ 2,832	$ 973
Income from discontinued operations, net of tax		32		67
Net income	$ 2,099	$ 1,643	$ 2,832	$ 1,040
Basic earnings per share attributable to PowerSecure International, Inc. common stockholders:				
Income from continuing operations	$ 0.11	$ 0.09	$ 0.15	$ 0.05
Income from discontinued operations				0.01

Net income attributable to PowerSecure International, Inc. common stockholders	$	0.11	$	0.09	$	0.15	$	0.06
Diluted earnings per share attributable to PowerSecure International, Inc. common stockholders:								
Income from continuing operations	$	0.11	$	0.09	$	0.15	$	0.05
Income from discontinued operations								
Net income attributable to PowerSecure International, Inc. common stockholders	$	0.11	$	0.09	$	0.15	$	0.05

See accompanying notes to consolidated financial statements.

5

Table of Contents

POWERSECURE INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(in thousands)

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Cash flows from operating activities:		
Net income	$ 2,651	$ 475
Adjustments to reconcile net income to net cash used in operating activities:		
Gain on sale of unconsolidated affiliate		(1,439)
Income from discontinued operations		(67)
Depreciation and amortization	3,265	2,221
Stock compensation expense	289	576
Loss on disposal of miscellaneous assets	14	45
Changes in operating assets and liabilities, net of effect of acquisitions:		
Trade receivables, net	(11,025)	4,360
Inventories	(7,353)	861
Other current assets and liabilities	1,480	416
Other noncurrent assets and liabilities	(520)	(335)
Accounts payable	9,291	(378)
Accrued and other liabilities	(1,869)	(3,067)
Accrued restructuring and cost reduction liabilities	(349)	
Net cash provided by (used in) continuing operations	(4,126)	3,668
Net cash provided by discontinued operations		132
Net cash provided by (used in) operating activities	(4,126)	3,800
Cash flows from investing activities:		
Acquisitions, net of cash acquired	(9,542)	(3,523)
Purchases of property, plant and equipment	(3,856)	(3,330)
Additions to intangible rights and software development	(319)	(215)
Proceeds from sale of property, plant and equipment		14
Proceeds from sale of unconsolidated affiliate		1,445
Net cash used in investing activities	(13,717)	(5,609)
Cash flows from financing activities:		
Borrowings (payments) on revolving line of credit		
Proceeds from long-term borrowings	25,000	2,400
Principal payments on long-term debt	(80)	(80)
Principal payments on capital lease obligations	(437)	(414)
Repurchases of common stock	(9)	(1,010)
Proceeds from stock option exercises	900	14
Net cash provided by financing activities	25,374	910
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	7,531	(899)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	19,122	24,606

CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 26,653	$ 23,707

See accompanying notes to consolidated financial statements.

POWERSECURE INTERNATIONAL, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

As of June 30, 2013 and December 31, 2012 and

For the Three and Six Month Periods Ended June 30, 2013 and 2012

(all amounts in thousands unless otherwise designated, except per share data)

1. Description of Business and Basis of Presentation

Description of Business

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

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 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 products and services because they require unique knowledge and skills that utilize our core competencies, and because they address large market opportunities due to their strong customer value propositions. These three groups of products and services 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 Technologies business among these 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 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 Raleigh, North Carolina, Randleman, North Carolina, McDonough, Georgia, Anderson, South Carolina, and Bethlehem, Pennsylvania areas. The locations of our sales organization and field employees for this segment are generally in close proximity to the utilities and commercial, industrial, and institutional customers they serve. Our Utility and Energy Technologies segment is operated through our largest 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 on-going operations. See Note 12 for more information concerning our reportable segments.

Basis of Presentation

Organization The accompanying consolidated financial statements include the accounts of PowerSecure International, Inc. and its subsidiaries, primarily PowerSecure, Inc. and its majority-owned and wholly-owned subsidiaries, UtilityEngineering, Inc., PowerServices, Inc., EnergyLite, Inc., EfficientLights, LLC (EfficientLights), Innovative Electronic Solutions Lighting, LLC (IES), Reid s Trailer, Inc. (PowerFab), Innovation Energies, LLC, Southern Energy Management PowerSecure, LLC (PowerSecure Solar), Solais Lighting, Inc. (Solais) and PowerPackages, LLC, as well as Southern Flow Companies, Inc. (Southern Flow), WaterSecure Holdings, Inc. (WaterSecure), and Marcum Gas Metering, Inc., which are collectively referred to as the Company or PowerSecure or we or us or our .

These consolidated financial statements have been prepared pursuant to rules and regulations of the Securities and Exchange Commission. The accompanying consolidated financial statements and notes thereto should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2012.

In management s opinion, all adjustments (all of which are normal and recurring) have been made which are necessary for a fair presentation of the consolidated financial position of us and our subsidiaries as of June 30, 2013 and the consolidated results of our operations and cash flows for the three and six months ended June 30, 2013 and 2012.

Table of Contents

Principles of Consolidation The consolidated financial statements include the accounts of PowerSecure International, Inc. and its subsidiaries after elimination of intercompany accounts and transactions.

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

Until May 20, 2013, we held a 90% controlling ownership interest in PowerSecure Solar, a distributed solar energy company which we acquired in June 2012. In addition, until May 22, 2013, we also held a 67% controlling ownership interest in IES, an LED lighting company in which we acquired a controlling interest in 2010. On May 20, 2013, we acquired the 10% non-controlling ownership interest in PowerSecure Solar in exchange for a cash payment of $153 thousand. On May 22, 2013, we acquired the 33% non-controlling ownership interest in IES in exchange for 209 thousand shares of our common stock valued at a total of $2.9 million on the date of acquisition, issued pursuant to our acquisition shelf registration statement on Form S-4. As a result of these non-controlling interest acquisitions, both PowerSecure Solar and IES are now wholly-owned subsidiaries and there will be no non-controlling interest in those entities after the acquisition dates.

The following is a reconciliation of the amounts attributable to the non-controlling interest in IES and PowerSecure Solar for the six months ended June 30, 2013 and 2012:

	Six Months Ended June 30, 2013		
	IES	PowerSecure Solar	Total
Balance, December 31, 2012	$ (6)	$ 446	$ 440
Capital contribution			
Income (loss)	(143)	(38)	(181)
Acquisition of non-controlling interest	149	(408)	(259)
Balance, June 30, 2013	$	$	$

	Six Months Ended June 30, 2012		
	IES	PowerSecure Solar	Total
Balance, December 31, 2011	$ 909	$	$ 909
Capital contribution		433	433
Income (loss)	(551)	(14)	(565)
Balance, June 30, 2012	$ 358	$ 419	$ 777

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

Reclassifications Certain 2012 amounts have been reclassified to conform to current year presentation. Such reclassifications had no effect on net income or stockholders equity as previously reported.

2. Summary of Significant Accounting Policies and Recent Accounting Standards

Revenue Recognition For our turn-key distributed generation projects, our utility infrastructure projects, and our ESCO energy efficiency projects, we recognize revenue and profit as work progresses using the percentage-of-completion method, which relies on various estimates. Nearly all of our turn-key distributed generation, utility infrastructure, and ESCO projects are fixed-price contracts.

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 the costs incurred and the value added to the overall project. While the order of these phases varies depending on the project, each of these output phases is necessary to complete each project and each phase is an integral part of the turn-key product solution we deliver to our customers. We use these output phases and percentages to measure our progress toward completion of our construction projects. For each reporting period, the status of each project, by phase, is determined by employees who are managers of or are otherwise directly involved with the project and 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 method, revenues and gross profit are adjusted prospectively for revisions in estimated total contract costs and contract values. Estimated losses, if any, are recorded when identified. While a project is in process, amounts billed to customers in excess of revenues recognized to date are classified as current liabilities. Likewise, amounts recognized as revenue in excess of actual billings to date are recorded as unbilled accounts receivable. In the event adjustments are made to the contract price, including, for example, adjustments for additional 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 recorded to income in the period in which the facts that give rise to the revision become known. In the event we are required to adjust any particular project s estimated revenues or costs, the effect on the current period earnings may or may not be significant. If, however, conditions arise that require us to adjust our estimated revenues or costs for a series of similar construction projects, the effect on current period earnings would more likely be significant. In addition, certain contracts contain cancellation provisions permitting the customer to cancel the contract prior to completion of a project. Such cancellation provisions generally require the customer to pay/reimburse us for costs we incurred on the project, but may result in an adjustment to profit already recognized in a prior period.

We recognize equipment and product revenue when persuasive evidence of a commercial arrangement exists, delivery has occurred and/or services have been rendered, the price is fixed or determinable, and collectability is reasonably assured. Equipment and product sales are generally made directly to end users of the product, who are responsible for payment for the product, although in some instances we can be a subcontractor, which occurs most frequently on larger jobs that involve more scope than our products and services.

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

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

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

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

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

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

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

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

Inventories Inventories are stated at the lower of cost (determined primarily on a specific-identification basis) or market. Our raw materials, equipment and supplies inventory consist primarily of equipment with long lead-times purchased for anticipated customer orders. Our work in progress inventory consists primarily of equipment and parts allocated to specific distributed generation turn-key projects and our utility infrastructure and ESCO project costs accounted for on the percentage-of-completion basis. Our finished goods inventory consists primarily of LED-based lighting products stocked to meet customer order and delivery requirements. We provide a valuation reserve primarily for raw materials, equipment and supplies and certain work in process inventory items that may be in excess of our needs, obsolete or damaged and requiring repair or re-work.

Property, Plant and Equipment Property, plant and equipment are stated at cost and are generally depreciated using the straight-line method over their estimated useful lives, which depending on asset class ranges from 3 to 30 years.

Goodwill and Other Intangible Assets We amortize the cost of specifically identifiable intangible assets that do not have an indefinite life over their estimated useful lives. We do not amortize goodwill and intangible assets with indefinite lives. We perform reviews of goodwill and intangible assets with indefinite lives for impairment annually, as of October 1, or more frequently if impairment indicators arise. We capitalize software development costs integral to our products once technological feasibility of the products and software has been determined. Purchased software and software development costs are amortized over five years, using the straight-line method. Patents and license agreements are amortized using the straight-line method over the lesser of their estimated economic lives or their legal term of existence, currently 3 to 5 years.

Table of Contents

Debt Issuance Costs Debt issuance costs are capitalized and included in other current and non-current assets in our consolidated balance sheets. These costs are amortized over the term of the corresponding debt instrument using the straight-line method for debt issuance costs related to the revolving portion of our credit facility and the effective interest method for debt issuance costs on our term loan debt. Amortization of debt issuance costs is included in interest expense in our consolidated statements of income.

Warranty Reserve We provide a standard one year warranty for our distributed generation, switchgear, utility infrastructure, and ESCO 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. In addition, we provide longer warranties for our PowerSecure Solar products and services including a warranty period of generally one to five years for defects in material and workmanship, a warranty period of generally ten to twenty years for declines in power performance, and a warranty period which can extend to fifteen to twenty-five years on the functionality of solar panels which is generally backed by the panel manufacturer. We reserve for the estimated cost of product warranties when revenue is recognized, and we evaluate our reserve periodically by comparing our warranty repair experience by product. The purchase price for extended warranties or extended warranties included in the contract terms are deferred as a component of our warranty reserve.

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

Pre-tax share-based compensation expense for our stock options and restricted stock awards recognized during the three months ended June 30, 2013 and 2012 was $148 thousand and $281 thousand, respectively. Pre-tax share-based compensation expense for our stock options and restricted stock awards recognized during the six months ended June 30, 2013 and 2012 was $289 thousand and $576 thousand, respectively. All share-based compensation expense is included in general and administrative expense in the accompanying consolidated statements of income.

Impairment or Disposal of Long-Lived Assets We evaluate our long-lived assets whenever significant events or changes in circumstances occur that indicate that the carrying amount of an asset may be impaired. Recoverability of these assets is determined by comparing the forecasted undiscounted future cash flows from the operations to which the assets relate, based on management s best estimates using appropriate assumptions and projections at the time, to the carrying amount of the assets. If the carrying value is determined not to be recoverable from future operating cash flows, the asset is deemed impaired and an impairment loss is recognized equal to the amount by which the carrying amount exceeds the estimated fair value of the asset or assets.

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

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

Table of Contents

Derivative Financial Instruments We use derivative financial instruments in the form of interest rate swap contracts to manage interest rate risk associated with our floating rate debt. Commencing in July 2013, we entered into interest rate swap contracts to manage the balance of fixed and floating rate debt. Our accounting for such derivative financial instruments is based on our designation of these interest rate swaps as cash flow hedges. It is our policy to execute such interest rate swaps with creditworthy banks and not to enter into derivative financial instruments for speculative purposes. To qualify for designation in a hedging relationship, specific criteria must be met and the appropriate documentation maintained. Hedging relationships are established pursuant to our risk management policies and are initially and regularly evaluated to determine whether they are expected to be, and have been, highly effective hedges. For our interest rate swap contracts designated as a hedge of interest on our floating rate debt, the effective portion of the change in fair value of the derivative is reported in other comprehensive income and reclassified into earnings in the period in which the hedged item affects earnings. Amounts excluded from the effectiveness calculation and any ineffective portion of the change in fair value of the derivative are recognized currently in earnings.

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

Recent Accounting Pronouncements

Testing Indefinite-Lived Intangible Assets for Impairment In July 2012, the FASB issued ASU No. 2012-02, Intangibles Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment. This standard, which amends the guidance on testing indefinite-lived intangible assets, other than goodwill, for impairment, provides companies with the option to first perform a qualitative assessment before performing the two-step quantitative impairment test. If the company determines, on the basis of qualitative factors, that the fair value of the indefinite-lived intangible asset is more likely than not to exceed its carrying amount, then the company would not need to perform the two-step quantitative impairment test. This standard does not revise the requirement to test indefinite-lived intangible assets annually for impairment. This standard became effective for us on a prospective basis commencing January 1, 2013. The adoption of this standard had no effect on our financial position or results of operations.

3. Earnings per Share

Basic earnings per share is computed by dividing net income attributable to PowerSecure International, Inc. common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share attributable to PowerSecure International, Inc. common stockholders is computed using the weighted average number of common shares outstanding and, when dilutive, potential common shares from stock options using the treasury stock method. Diluted earnings per share excludes the impact of potential common shares related to stock options in periods in which we reported a loss from continuing operations or in which the option exercise price is greater than the average market price of our common stock during the period because the effect would be antidilutive.

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Income from continuing operations	$ 2,099	$ 1,611	$ 2,832	$ 973
Income from discontinued operations		32		67
Net income	$ 2,099	$ 1,643	$ 2,832	$ 1,040
Basic weighted-average common shares outstanding in period	19,024	18,846	18,635	18,874
Dilutive effect of stock options	333	95	306	141
Diluted weighted-average common shares outstanding in period	19,357	18,941	18,941	19,015
Basic earnings per common share:				
Income from continuing operations	$ 0.11	$ 0.09	$ 0.15	$ 0.05
Income from discontinued operations				0.01
Basic earnings per common share	$ 0.11	$ 0.09	$ 0.15	$ 0.06