POWERSECURE INTERNATIONAL, INC.
Form 10-Q
August 05, 2015
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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, 2015

or

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

For the transition period from __________ to __________

Commission File Number 1-12014

POWERSECURE INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

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

(919) 556-3056

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 (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 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.

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 Exchange Act). Yes ¨ No x

As of July 31, 2015, 22,455,731 shares of the issuer s Common Stock were outstanding.

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POWERSECURE INTERNATIONAL, INC.

FORM 10-Q

For the Quarterly Period Ended June 30, 2015

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PART I.

FINANCIAL INFORMATION

Item 1. Financial Statements

POWERSECURE INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

(in thousands, except share data)

Assets	June 30, 2015	December 31, 2014
Current Assets:		
Cash and cash equivalents	$ 20,516	$ 33,775
Trade receivables, net of allowance for doubtful accounts of $609 and $470, respectively	102,761	81,381
Inventories	29,967	35,144
Income taxes receivable		382
Deferred tax asset, net	2,320	2,320
Prepaid expenses and other current assets	3,458	3,478
Total current assets	159,022	156,480
Property, plant and equipment:		
Equipment	67,023	62,231
Furniture and fixtures	685	617
Land, building and improvements	7,836	7,413
Total property, plant and equipment, at cost	75,544	70,261
Less accumulated depreciation and amortization	23,569	20,392
Property, plant and equipment, net	51,975	49,869
Other assets:		
Goodwill	40,210	40,210
Restricted annuity contract	3,137	3,137
Intangible assets and capitalized software costs, net of accumulated amortization of $9,209 and $7,374, respectively	12,890	13,642
Other assets	2,446	1,879

Total other assets	58,683	58,868
Total Assets	$ 269,680	$ 265,217

See accompanying notes to condensed consolidated financial statements.

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POWERSECURE INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

(in thousands, except share data)

Liabilities and Stockholders Equity	**June 30, 2015**	**December 31, 2014**
Current liabilities:		
Accounts payable	$ 39,963	$ 39,699
Accrued and other liabilities	44,840	41,113
Accrued restructuring liabilities	60	114
Income taxes payable	199	
Current portion of long-term debt	3,731	3,731
Current portion of capital lease obligation	500	986
Total current liabilities	89,293	85,643
Long-term liabilities:		
Revolving line of credit		
Long-term debt, net of current portion	15,966	17,832
Capital lease obligation, net of current portion		
Deferred tax liability, net	1,457	1,460
Other long-term liabilities	4,031	3,913
Total long-term liabilities	21,454	23,205
Commitments and contingencies (Notes 8 and 10)		
Stockholders Equity:		
Preferred stock - undesignated, $.01 par value; 2,000,000 shares authorized; none issued and outstanding		
Preferred stock - Series C, $.01 par value; 500,000 shares authorized; none issued and outstanding		
Common stock, $.01 par value; 50,000,000 shares authorized; 22,455,731 and 22,369,487 shares issued and outstanding, respectively	225	224
Additional paid-in-capital	162,739	161,163
Accumulated deficit	(3,949)	(4,941)
Accumulated other comprehensive income (loss)	(82)	(77)
Total stockholders equity	158,933	156,369
Total Liabilities and Stockholders Equity	$ 269,680	$ 265,217

See accompanying notes to condensed consolidated financial statements.

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POWERSECURE INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	**2014**	**2015**	**2014**
Revenues	$ 107,182	$ 57,069	$ 186,691	$ 109,866
Cost of sales (excluding depreciation and amortization)	83,111	42,738	141,291	84,494
Gross profit	24,071	14,331	45,400	25,372
Operating expenses:				
General and administrative	16,705	13,670	32,339	26,714
Selling, marketing and service	2,973	2,466	5,721	4,475
Depreciation and amortization	2,612	2,137	5,089	4,315
Restructuring charges				427
Total operating expenses	22,290	18,273	43,149	35,931
Operating income (loss)	1,781	(3,942)	2,251	(10,559)
Other income and (expenses):				
Interest income and other income	2	5	3	9
Interest expense	(287)	(292)	(556)	(592)
Income (loss) before income taxes	1,496	(4,229)	1,698	(11,142)
Income tax expense (benefit)	625	(1,481)	706	(4,135)
Net income (loss)	$ 871	$ (2,748)	$ 992	$ (7,007)
Earnings (loss) per share:				
Basic	$ 0.04	$ (0.12)	$ 0.04	$ (0.32)
Diluted	$ 0.04	$ (0.12)	$ 0.04	$ (0.32)
Weighted average common shares outstanding during the period:				
Basic	22,450	22,346	22,418	22,164
Diluted	22,592	22,346	22,544	22,164

See accompanying notes to condensed consolidated financial statements.

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POWERSECURE INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (unaudited)

(in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	**2014**	**2015**	**2014**
Net income (loss)	$ 871	$ (2,748)	$ 992	$ (7,007)
Other comprehensive income (loss), net of tax:				
Cash flow hedge:				
Change in unrealized gain (loss)	8	(74)	(73)	(119)
Reclassification adjustment for net (gains) losses included in net income (loss)	32	46	68	87
Total comprehensive income (loss), net of tax	$ 911	$ (2,776)	$ 987	(7,039)

See accompanying notes to condensed consolidated financial statements.

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POWERSECURE INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(in thousands)

	Six Months Ended June 30,	
	2015	**2014**
Cash flows from operating activities:		
Net income (loss)	$ 992	$ (7,007)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	5,089	4,315
Stock compensation expense	1,326	893
(Gain) loss on disposal of miscellaneous assets	(34)	(92)
Changes in operating assets and liabilities:		
Trade receivables, net	(21,380)	7,888
Inventories	5,177	(3,796)
Other current assets and liabilities	600	(5,336)
Other noncurrent assets and liabilities	(456)	(704)
Accounts payable	264	3,740
Accrued and other liabilities	3,727	(3,894)
Accrued restructuring liabilities	(54)	(604)
Net cash used in operating activities	(4,749)	(4,597)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(5,486)	(4,501)
Additions to intangible rights and software development	(1,083)	(318)
Proceeds from sale of property, plant and equipment	159	460
Net cash used in investing activities	(6,410)	(4,359)
Cash flows from financing activities:		
Borrowings (payments) on revolving line of credit		
Principal payments on long-term borrowings	(1,866)	(1,866)
Principal payments on capital lease obligations	(486)	(460)
Repurchases of common stock	(48)	(366)
Proceeds from stock option exercises	300	2,045
Net cash provided by (used in) financing activities	(2,100)	(647)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(13,259)	(9,603)

CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	33,775	50,915
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 20,516	$ 41,312

See accompanying notes to condensed consolidated financial statements.

POWERSECURE INTERNATIONAL, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

As of June 30, 2015 and December 31, 2014 and

For the Three and Six Month Periods Ended June 30, 2015 and 2014

(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.

We provide products and services through four operating segments: our Distributed Generation segment, our Solar Energy segment, our Utility Infrastructure segment, and our Energy Efficiency segment. These four operating segments constitute our major product and services offerings, each of which are focused on serving the needs of utilities and their large commercial, institutional and industrial customers to help them generate, deliver, and utilize electricity more reliably and efficiently. Our strategy is focused on growing these four segments, which require unique knowledge and skills that utilize our core competencies, because they address large market opportunities due to their strong customer value propositions. The segments share common or complementary utility relationships and customer types, common sales and overhead resources, and facilities. However, we distinguish our operations among these segments due to their unique products and services, differing cost structures, market needs they are addressing, and the distinct technical disciplines and specific capabilities required for us to deliver their products and services, including personnel, technology, engineering, and intellectual capital. We currently operate primarily out of our Wake Forest, North Carolina headquarters office. Our operations also include several satellite offices and manufacturing facilities, the largest of which are in the Raleigh and Greensboro, North Carolina, Atlanta, Georgia, Bethlehem, Pennsylvania, and Stamford, Connecticut areas. The locations of our sales organization and field employees for our operations are generally in close proximity to the utilities and commercial, industrial, and institutional customers they serve. Our four operating segments are operated through our principal operating wholly-owned subsidiary, PowerSecure, Inc.

Each of our four operating segments also represents a reporting segment. See Note 12 for more information concerning our reportable segments.

Basis of Presentation

Organization The accompanying condensed consolidated financial statements include the accounts of PowerSecure International, Inc. and its subsidiaries, primarily PowerSecure, Inc. and its majority-owned and wholly-owned subsidiaries, UtilityEngineering, Inc., PowerServices, Inc., PowerSecure Lighting, LLC (PowerSecure Lighting), Solais Lighting, Inc. (Solais), EnergyLite, Inc.(EnergyLite), EfficientLights, LLC (EfficientLights), Innovative Electronic Solutions Lighting, LLC (IES), Reid s Trailer, Inc. d/b/a PowerFab (PowerFab), Innovation Energies, LLC, and PowerSecure Solar, LLC (PowerSecure Solar) and PowerPackages, LLC which are collectively referred to as the Company or PowerSecure or we or us or our . On June 30, 2014, EfficientLights and IES were dissolved and me into EnergyLite.

These condensed consolidated financial statements have been prepared pursuant to rules and regulations of the Securities and Exchange Commission. The accompanying condensed 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, 2014.

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 condensed consolidated financial position of us and our subsidiaries as of June 30, 2015 and the condensed consolidated results of our operations and cash flows for the three and six months ended June 30, 2015 and 2014.

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

Comprehensive Income or Loss Comprehensive income or loss represents the changes in stockholders equity during a period resulting from transactions and other events and circumstances from non-owner sources. At June 30, 2015 and December 31, 2014, the balance of Accumulated other comprehensive income (loss) (Accumulated OCI) consisted solely of changes in the fair value of our interest rate cash flow hedge contracts, net of taxes.

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

Reclassifications Certain 2014 amounts have been reclassified to conform to current year presentation. Such reclassifications had no effect on net income (loss) or stockholders equity as previously reported.

2. Summary of Significant Accounting Policies and Recent Accounting Standards

Revenue Recognition For our turn-key project-based revenues, we recognize revenue and profit as work progresses using the percentage-of-completion method, which relies on various estimates. These turn-key Distributed Generation, Solar Energy, Utility Infrastructure, and Energy Efficiency Services projects are nearly always fixed-price contracts. Revenues from turn-key Mission Critical Data Center Energy Services (formerly referred to as Mission Critical Energy Services) projects, which are integrated in our Distributed Generation segment since our acquisition of those operations in October 2014, are also recognized using the percentage-of-completion method.

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

In applying the percentage-of-completion method to our Mission Critical Data Center Energy Services, Utility Infrastructure turn-key projects and our Energy Efficiency Services projects, revenues and gross profit are recognized as work is performed based on the relationship between actual costs incurred and total estimated costs at completion.

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

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

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

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

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

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

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

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. In certain instances, from time to time, we may purchase credit insurance on our accounts receivable in order to minimize our exposure to potential credit loss. We maintain a provision for estimated credit losses.

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

From time to time, we have derived a material portion of our revenues from one or more significant customers. 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 for the majority of our distributed generation inventory and secondarily on a first-in first-out basis for our LED-based lighting product inventory) or market. Our raw materials, equipment and supplies inventory consist primarily of equipment with long lead-times purchased for anticipated customer orders. Our work in progress inventory consists primarily of equipment and parts allocated to specific Distributed Generation, Mission Critical Data Center Energy Services and Solar Energy turn-key projects and our Utility Infrastructure and Energy Efficiency Services project costs accounted for on the percentage-of-completion basis. Our finished goods inventory consists primarily of LED-based lighting products stocked to meet customer order and delivery requirements. Inventory also includes shipping costs incurred on incoming product shipments. We provide a valuation reserve primarily for raw materials, equipment and supplies and certain work in process inventory items that may be in excess of our needs, obsolete or damaged and requiring repair or re-work.

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.

Debt Issuance Costs Debt issuance costs are capitalized and included in other current and non-current assets in our condensed 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 condensed consolidated statements of operations.

Warranty Reserve We provide a standard one year warranty for our Distributed Generation, switchgear, Utility Infrastructure, and Energy Efficiency Services equipment and a 5 to 10 year warranty for our LED lighting-based products. In certain cases, we offer extended warranty terms for those product lines. In addition, we provide longer warranties for our Solar Energy products and services including a warranty period of generally 1 to 5 years for defects in material and workmanship, a warranty period that can extend to 10 to 20 years for declines in power performance, and a warranty period which can extend to 15 to 25 years on the functionality of solar panels which is generally backed by the panel manufacturer. We reserve for the estimated cost of product warranties when revenue is recognized, and we evaluate our reserve periodically by comparing our warranty repair experience by product. The purchase price for extended warranties or for extended warranties included in the contract terms are deferred as a component of our warranty reserve. The balance of our warranty reserve was $1.6 million and $1.7 million at June 30, 2015 and December 31, 2014, respectively, and is included in accrued and other liabilities in the accompanying condensed consolidated balance sheet.

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

Pre-tax share-based compensation expense recognized during the three months ended June 30, 2015 and 2014 was $0.7 million and $0.6 million, respectively. Pre-tax share-based compensation expense during the six months ended June 30, 2015 and 2014 was $1.3 million and $0.9 million, respectively. All share-based compensation expense is included in general and administrative expense in the accompanying condensed consolidated statements of operations.

Impairment or Disposal of Long-Lived Assets We evaluate our long-lived assets whenever significant events or changes in circumstances occur that indicate that the carrying amount of an asset may be impaired. Recoverability of these assets is determined by comparing the forecasted undiscounted future cash flows from the operations to which the assets relate, based on management s best estimates using appropriate assumptions and projections at the time, to the carrying amount of the assets. If the carrying value is determined not to be recoverable from future operating cash flows, the asset is deemed impaired and an impairment loss is recognized equal to the amount by which the carrying amount exceeds the estimated fair value of the asset or assets. We did not record any long-lived asset impairment charges during the three and six months ended June 30, 2015 and 2014.

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

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

Derivative Financial Instruments Our derivative financial instruments consist solely of two interest rate swap contracts that are used to hedge our interest rate risk on a portion of our variable rate debt. These interest rate swap contracts are designated as cash flow hedges. It is our policy to execute such interest rate swaps with creditworthy banks and we do not enter into derivative financial instruments for speculative purposes.

Fair Value Measurements We measure our derivative instruments at fair value on a recurring basis. The fair value measurements standard establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements), and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under the standard are described below:

Level 1	Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.
Level 2	Inputs to the valuation methodology include:

- Quoted market prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;

Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset s or liability s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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See Note 7 for more information concerning the fair value of our derivative instruments.

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

Recent Accounting Pronouncements

Inventory Measurement In July 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory (ASU 2015-11), which requires entities to measure inventory at the lower of cost and net realizable value (NRV). ASU 2015-11 defines NRV as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The ASU will not apply to inventories that are measured by using either the last-in, first-out method or the retail inventory method. The guidance in ASU 2015-11 is effective prospectively for fiscal years beginning after December 15, 2016, and interim periods therein. Early adoption is permitted. Upon transition, entities must disclose the nature of and reason for the accounting change. We do not expect that the adoption of this standard will have a material effect on our consolidated financial statements.

Presentation of Debt Issuance Costs In April 2015, the FASB issued ASU No. 2015-03: Simplifying the Presentation of Debt Issuance Costs (ASU 2015-03). ASU 2015-03 specifies that debt issuance costs shall be reported in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs shall be reported as interest expense. The guidance in ASU 2015-03 is effective for fiscal years beginning after December 15, 2015. Early adoption is allowed. Application of the guidance in ASU 2015-03 is applicable retrospectively to all periods presented. We do not expect that the adoption of this standard will have a material effect on our consolidated financial statements.

Going Concern Disclosures In August 2014, the FASB issued ASU No. 2014-15: Disclosure of Uncertainties About an Entity s Ability to Continue as a Going Concern (ASU 2014-15). ASU 2014-15 requires management to perform interim and annual assessments of an entity s ability to continue as a going concern within one year of the date the financial statements are issued and provides guidance on determining when and how to disclose going concern uncertainties in the financial statements. Certain disclosures will be required if conditions give rise to substantial doubt about an entity s ability to continue as a going concern. ASU 2014-15 is effective for annual and interim reporting periods ending after December 15, 2016, with early adoption permitted. We do not expect that the adoption of this standard will have a material effect on our consolidated financial statements.

Stock Compensation In June 2014, the FASB issued ASU No. 2014-12, Compensation Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (ASU 2014-12). ASU 2014-12 requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This standard further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the periods for which the requisite service has already been rendered. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015 and can be applied either prospectively or retrospectively to all awards outstanding as of the beginning of the earliest annual period presented as an adjustment to opening retained earnings. Early adoption is permitted. We are evaluating the impact, if any, this new standard will have on our consolidated financial statements.

Revenue Recognition In May 2014, the FASB issued ASU No. 2014-09: Revenue from Contracts with Customers (ASU 2014-09). This standard replaces existing accounting literature relating to how and when a company recognizes revenue. Under ASU 2014-09, a company will recognize revenue when it transfers goods or services to

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customers in an amount equal to the amount that it expects to be entitled to receive in exchange for those goods and services. This standard also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments. ASU 2014-09 will be effective for annual and interim periods beginning after December 15, 2017, and will be effective for us for our fiscal year that begins January 1, 2018, and permits the use of either the retrospective or cumulative effect transition method. Early adoption is not permitted. We are in the process of determining the method of adoption and evaluating the impact, if any, the adoption of this standard will have on our consolidated financial statements and related disclosures.

Reporting Discontinued Operations In April 2014, the FASB issued ASU No. 2014-08: Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity (ASU 2014-08). ASU 2014-08 changes the definition of a discontinued operation to include only those disposals of components of an entity that represent a strategic shift that has (or will have) a major effect on an entity s operations and financial results, and changes the criteria and enhances disclosures for reporting discontinued operations. This standard is to be applied prospectively, and is effective for our fiscal year that begins January 1, 2015. The adoption of this standard had no effect on our consolidated financial statements.

3. Earnings (Loss) per Share

Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share 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. A total of 449 thousand common shares issuable upon the potential exercise of outstanding stock options were excluded from the calculation of diluted weighted average number of shares outstanding for the three and six months ended June 30, 2014, because their effect was antidilutive to our net loss for that period.

The following table sets forth the calculation of basic and diluted earnings (loss) per share:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	**2014**	**2015**	**2014**
Net income (loss)	$ 871	$ (2,748)	$ 992	$ (7,007)
Basic weighted-average common shares outstanding in period	22,450	22,346	22,418	22,164
Dilutive effect of stock options	142		126	
Diluted weighted-average common shares outstanding in period	22,592	22,346	22,544	22,164

Basic earnings (loss) per common share	$ 0.04	$ (0.12)	$ 0.04	$ (0.32)
Diluted earnings (loss) per common share	$ 0.04	$ (0.12)	$ 0.04	$ (0.32)

4. Contingent Consideration Payment on 2014 Acquisition

On October 14, 2014, we acquired the mission critical data center energy services business and certain related assets of Power Design, Inc., a Florida corporation (PDI), pursuant to an Asset Purchase and Sale Agreement (the Purchase Agreement), between PDI, as seller, and PowerSecure, Inc., as purchaser. We refer to the acquired operations as our Mission Critical Data Center Energy Services operations and have integrated these operations within our Distributed Generation segment.

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The purchase price paid for the Mission Critical Data Center Energy Services operations was $13.0 million in cash and $0.1 million cash for a working capital adjustment plus a potential additional contingent cash payment in the amount of $1.0 million if PowerSecure, Inc. obtains firm backlog after the closing in the amount of at least $5.0 million from the acquired business, or in the amount of $2.0 million if the firm backlog amount obtained after closing is at least $15.0 million. We paid $1.0 million of contingent cash consideration to PDI on April 3, 2015. We expect to pay an additional $1.0 million in full settlement of the contingent consideration during the remainder of 2015 as the result of additional backlog that the acquired business is expected to generate. The balance of our contingent consideration liability at June 30, 2015 and December 31, 2014 was $1.0 million and $1.9 million, respectively.

5. Restructuring Charges

From time to time and most recently in 2013, we have engaged in restructuring programs designed to reduce our cost structure and improve productivity. These initiatives typically consist of realigning operations, reducing employee counts, rationalizing facilities, changing manufacturing sourcing, eliminating certain products, inventory writedowns and long term asset disposals, and other actions designed to reduce our cost structure and improve productivity.

The following table summarizes the balance of our accrued restructuring liabilities at and for the six months ended June 30, 2015:

	Employee Termination Costs	Inventory Writedowns and Long Term Asset Disposals	Leasehold Termination and Other Facility Exit Costs	Total
Accrued restructuring liabilities, December 31, 2014	$ 114	$	$	$ 114
Costs paid or otherwise settled	(54)			(54)
Accrued restructuring liabilities, June 30, 2015	$ 60	$	$	$ 60

The balances of our accrued restructuring liabilities at June 30, 2015 and December 31, 2014 are included in current liabilities in our condensed consolidated balance sheet. We expect the majority of the balance of our accrued restructuring charges at June 30, 2015 will be paid or otherwise settled during the remainder of 2015.

6. Debt and Interest Rate Swap Contracts

We have a long-term credit facility with Citibank, N.A. (Citibank), as administrative agent and lender, and other lenders under a credit agreement that we first entered into with our lenders in August 2007 and have amended and restated from time-to-time. At June 30, 2015 and December 31, 2014, our credit agreement with Citibank along with Branch Banking and Trust Company (BB&T) as additional lender, consisted of a $20.0 million senior, first-priority secured revolving line of credit maturing on November 12, 2016, a $2.6 million term loan maturing on November 12, 2016, and a $25.0 million, 7 year amortizing term loan maturing on June 30, 2020. The credit agreement is guaranteed by all our active subsidiaries and is secured by the assets of us and those subsidiaries.

The credit facility contains three basic financial covenants. First, under the credit agreement, if cash on hand does not exceed funded indebtedness by at least $5.0 million, then our minimum fixed charge coverage ratio must be in excess of 1.25, where the fixed charge coverage ratio is defined as the ratio of the aggregate of our consolidated Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) plus our lease expense minus our taxes based on income and payable in cash, divided by the sum of our consolidated interest charges plus our lease expenses plus our scheduled principal payments and dividends, computed over the previous period. Prior to the fiscal quarter ended June 30, 2015, the fixed charge coverage ratio was based on our financial results for the third quarter 2014 and subsequent fiscal quarters.

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Commencing with the most recent fiscal quarter ended June 30, 2015 and continuing thereafter, the fixed charge coverage ratio is now based on our financial results for the previous four fiscal quarters on a rolling basis. Second, we are required to maintain a minimum consolidated net worth, computed on a quarterly basis, of not less than the sum of $142.1 million, plus an amount equal to 50% of our net income each fiscal year commencing with the 2014 fiscal year, with no reduction for any net loss in any fiscal year, plus 90% of any equity we raise through the sale of equity interests, less the amount of any non-cash charges or losses. Under our third financial covenant, the ratio of our funded indebtedness to our capitalization, computed as funded indebtedness divided by the sum of funded indebtedness plus stockholders equity, cannot exceed 30%. As of June 30, 2015, we were in compliance with these financial covenants.

The following table summarizes the balances outstanding on our long-term debt, including our revolving line of credit, with Citibank and BB&T at June 30, 2015 and December 31, 2014:

	June 30, 2015	December 31, 2014
Revolving line of credit, maturing November 12, 2016	$	$
Term loan, principal of $0.04 million plus interest payable quarterly at variable rates, maturing November 12, 2016	1,840	1,920
Term loan, principal of $0.9 million plus interest payable quarterly at variable rates, maturing June 30, 2020	17,857	19,643
Total debt	19,697	21,563
Less: Current portion	(3,731)	(3,731)
Long-term debt, net of current portion	$ 15,966	$ 17,832

We have used, and intend to continue to use, the proceeds available under the credit facility to support our growth and future investments in working capital, additional Utility Infrastructure equipment, Company-owned distributed generation projects, other capital expenditures, acquisitions and general corporate purposes.

Outstanding balances under the credit facility bear interest, at our discretion, at either the London Interbank Offered Rate (LIBOR) for the corresponding deposits of U. S. Dollars plus an applicable margin, which is on a sliding scale ranging from 2.00% to 3.25% based upon our leverage ratio, or at Citibank s alternate base rate plus an applicable margin, on a sliding scale ranging from 0.25% to 1.50% based upon our leverage ratio. Our leverage ratio is the ratio of our funded indebtedness as of a given date, net of our cash on hand in excess of $5.0 million, to our consolidated EBITDA for the four consecutive fiscal quarters ending on such date. Citibank s alternate base rate is equal to the higher of the Federal Funds Rate as published by the Federal Reserve of New York plus 0.50%, Citibank s prime commercial lending rate and 30 day LIBOR plus 1.00%.

Scheduled remaining principal payments on our outstanding debt obligations at June 30, 2015, are as follows:

Scheduled Principal Payments for the Year Ending December 31:

	Revolving Line of Credit	$25.0 Million Term Loan	$2.6 Million Term Loan	Total Principal Payments
Remainder of 2015	$	$ 1,785	$ 80	$ 1,865
2016		3,571	1,760	5,331
2017		3,572		3,572
2018		3,572		3,572
2019 and thereafter		5,357		5,357
Total scheduled principal payments	$	$ 17,857	$ 1,840	$ 19,697

In July 2013, we entered into two forward-starting interest rate swap contracts based on three-month LIBOR that effectively converted 80% of the outstanding balance of our $25 million Term Loan to fixed rate debt. As discussed further in Note 7, we have designated the interest rate swaps as a cash flow hedge of the interest payments due on our floating rate debt. Accordingly, at June 30, 2015, $14.3 million of our outstanding debt bears interest at a fixed rate of 3.73% and $5.4 million of our outstanding debt bears interest at floating rates as described above. The termination dates of the swap contracts and the maturity date of the $25 million Term Loan are both June 30, 2020.

The credit facility contains customary terms and conditions for credit facilities of this type, including restrictions or limits on our ability to incur additional indebtedness, create liens, enter into transactions with affiliates, pay dividends on our capital stock, repurchase stock, and consolidate or merge with other entities. In addition, the credit agreement contains customary events of default, including payment defaults, breach of representations and warranties, covenant defaults, cross-defaults, certain bankruptcy or insolvency events, judgment defaults and certain ERISA-related events.

Our obligations under the credit facility are secured by guarantees and security agreements by each of our active subsidiaries, including PowerSecure, Inc. The guarantees guaranty all of our obligations under the credit facility, and the security agreements grant to the lenders a first priority security interest in virtually all of the assets of each guarantor.

There was an aggregate balance of $19.7 million outstanding under the two term loans under our credit facility as of June 30, 2015. There were no balances outstanding on the revolving portion of the credit facility at, or during the three months ended, June 30, 2015 or at December 31, 2014 or at August 5, 2015. In addition, there were no outstanding letters of credit reducing the amount available to borrow under the revolving portion of the credit facility at June 30 or August 5, 2015. Accordingly, we currently have $20.0 million available to borrow under the revolving portion of the credit facility. The availability this capital under our credit facility includes restrictions on the use of proceeds, and is dependent upon our ability to satisfy certain financial and operating covenants, as described above.

7. Derivative Instruments and Hedging Activities

In July 2013, we entered into two forward-starting interest rate swap contracts to manage interest rate risk associated with a portion of our $25 million Term Loan floating rate debt (see Note 6). The interest rate swaps effectively converted 80% of the outstanding balance of our $25.0 million floating rate term loan to a fixed rate term loan bearing interest at the rate of 3.73%. The notional amount of the interest rate swaps at June 30, 2015 was $14.3 million. The termination dates of the swap contracts and the maturity date of the $25 million Term Loan are both June 30, 2020.

In accordance with ASC 815, *Derivatives and Hedging*, we have designated both of our interest rate swaps as cash flow hedges of the interest payments due on our floating rate debt. To qualify for designation as a cash flow hedge, specific criteria must be met and the appropriate documentation maintained. Hedging relationships are established pursuant to our risk management policies and are initially and regularly evaluated to determine whether they are expected to be, and have been, highly effective hedges. For our interest rate swap contracts designated as a cash flow hedge of interest on our floating rate debt, the effective portion of the change in fair value of the derivative is reported in other comprehensive income and reclassified into earnings in the period in which the hedged item affects earnings. Any amounts excluded from the effectiveness calculation and any ineffective portion of the change in fair value of the derivative are recognized currently in earnings.

The interest rate swaps are measured at Level 2 fair value on a recurring basis, using standard pricing models and market-based assumptions for all significant inputs, such as LIBOR yield curves. The fair value of the interest rate swap contracts included within our consolidated balance sheets as of June 30, 2015 and December 31, 2014, are as follows:

Derivative designated as hedging instrument:	Balance Sheet Location	June 30, 2015	December 31, 2014	Balance Sheet Location	June 30, 2015	December 31, 2014
Interest rate swaps	Other assets	$	$	Other long-term liabilities	$ 154	$ 146

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The following tables present the effects of derivative instruments designated as cash flow hedges on our consolidated statements of operations and accumulated other comprehensive income (loss) (AOCI):

	Amounts Reclassified from AOCI into income				Affected Line Item in the Consolidated Statements of Operations
	Three Months Ended June 30,		Six Months Ended June 30,		
AOCI Component	**2015**	**2014**	**2015**	**2014**	
Gain (loss) on cash flow hedges:					
Interest rate swaps	$ 55	$ 68	$ 113	$ 137	Interest expense
	(23)	(22)	(45)	(50)	Tax expense (benefit)
	$ 32	$ 46	$ 68	$ 87	Net of tax

	Amount of gain (loss) recognized in AOCI			
	Three Months Ended June 30,		Six Months Ended June 30,	
AOCI Component	**2015**	**2014**	**2015**	**2014**
Gain (loss) on cash flow hedges:				
Unrealized gain (loss) -				
Interest rate swaps	$ 9	$ (112)	$ (121)	$ (187)
Tax effect	(1)	38	48	68
Gain (loss) - net of tax	$ 8	$ (74)	$ (73)	$ (119)

We did not realize any ineffectiveness related to our cash flow hedges during the three or six months ended June 30, 2015 and 2014.

8. Capital Lease Obligations

We have a capital lease with SunTrust Equipment Finance and Leasing (as Lessor) from the sale and leaseback of distributed generation equipment placed in service at customer locations. We received $5.9 million from the sale of the equipment in December 2008 which we are repaying under the terms of the lease with monthly principal and interest payments of $0.1 million over a period of 84 months. At the expiration of the term of the lease in December 2015, we have the option to purchase the equipment for $1 dollar, assuming no default under the lease by us has occurred and is then continuing. The lease is guaranteed by us under an equipment lease guaranty. The lease and the lease guaranty constitute permitted indebtedness under our current credit agreement.

Proceeds of the lease financing were used to finance capital investments in equipment for our recurring revenue distributed generation projects. We account for the lease financing as a capital lease in our condensed consolidated financial statements.

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

The balances of our capital lease obligations shown in the accompanying condensed consolidated balance sheet at June 30, 2015 and December 31, 2014 consists entirely of our obligations under the equipment lease described above.

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9. Share-Based Compensation

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

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

In March 2008, our board of directors adopted the PowerSecure International, Inc. 2008 Stock Incentive Plan (the 2008 Stock Plan), which was approved by our stockholders at the Annual Meeting of Stockholders held on June 9, 2008. The 2008 Stock Plan authorizes our board of directors to grant incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock, performance awards and other stock-based awards to our officers, directors, employees, consultants and advisors for up to an aggregate of 0.6 million shares of our common stock. Stock options granted under the 2008 Stock Plan must contain exercise prices not less than the fair market value of our common stock on the date of grant, and must contain a term not in excess of 10 years from the date of grant. On June 19, 2012, at our 2012 Annual Meeting of Stockholders, our stockholders adopted and approved an amendment and restatement of the 2008 Stock Incentive Plan, including an amendment to increase the number of shares of our common stock authorized thereunder by 1.4 million shares to a total of 2.0 million shares. The 2008 Stock Plan replaced our 1998 Stock Plan.

Stock Options Net income (loss) for the three months ended June 30, 2015 and 2014 includes $59 thousand and $43 thousand, respectively, of pre-tax compensation costs related to outstanding stock options. Net income (loss) for the six months ended June 30, 2015 and 2014 includes $145 thousand and $87 thousand, respectively, of pre-tax compensation costs related to outstanding stock options. All of the stock option compensation expense is included in general and administrative expenses in the accompanying condensed consolidated statements of operations.

A summary of option activity for the six months ended June 30, 2015 is as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Balance, December 31, 2014	519	$ 9.12		
Granted	21	11.88		
Exercised	(60)	5.03		
Expired				
Forfeited	(8)	7.32		

Balance, June 30, 2015	472	$	9.79	5.60	$	4.97
Exercisable, June 30, 2015	275	$	9.03	3.50	$	5.73

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A summary of option activity for the six months ended June 30, 2014 is as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Balance, December 31, 2013	669	$ 8.59		
Granted	20	15.77		
Exercised	(232)	8.80		
Expired				
Forfeited	(8)	4.58		
Balance, June 30, 2014	449	$ 8.87	4.99	$ 0.87
Exercisable, June 30, 2014	298	$ 7.71	3.21	$ 2.03

The weighted average grant date fair value of stock options granted during the six months ended June 30, 2015 and 2014 was $4.99 and $6.49, respectively. The fair value of the stock options granted during the six months ended June 30, 2015 and 2014 was measured using the Black-Scholes valuation model with the following assumptions:

	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Expected stock price volatility	46.4%	45.5%
Risk free interest rate	1.5%	1.6%
Annual dividends	$	
Expected life (years)	5	5

The fair value of stock option grants is amortized to expense over the respective service periods using the straight-line method and assuming a forfeiture rate of 5%. As of June 30, 2015 and December 31, 2014, there was $0.7 million and $0.8 million, respectively, of total unrecognized compensation costs related to stock options. These costs at June 30, 2015 are expected to be recognized over a weighted average period of approximately 4.3 years.

During the three months ended June 30, 2015 and 2014, the total intrinsic value of stock options exercised was $0.1 million and $0, respectively. Cash received from stock option exercises during the three months ended June 30, 2015 and 2014 was $0 and $0, respectively. The total grant date fair value of stock options vested during the three months ended June 30, 2015 and 2014 was $78 thousand and $60 thousand, respectively.

During the six months ended June 30, 2015 and 2014, the total intrinsic value of stock options exercised was $0.4 million and $3.3 million, respectively. Cash received from stock option exercises during the six months ended June 30, 2015 and 2014 was $0.3 million and $2.0 million, respectively. The total grant date fair value of stock options vested during the six months ended June 30, 2015 and 2014 was $106 thousand and $65 thousand, respectively

Restricted Stock Awards and Restricted Stock Units Net income (loss) for the three months ended June 30, 2015 and 2014 includes $0.6 million and $0.6 million, respectively, of pre-tax compensation costs related to the vesting of outstanding restricted stock awards and restricted stock units granted to directors and employees. Net income (loss) for the six months ended June 30, 2015 and 2014 includes $1.1 million and $0.8 million, respectively, of pre-tax compensation costs related to the vesting of outstanding restricted stock awards and restricted stock units granted to directors and employees. All of the restricted stock award compensation expense during the three and six months ended June 30, 2015 and 2014 is included in general and administrative expenses in the accompanying condensed consolidated statements of operations.

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A summary of restricted stock award activity for the six months ended June 30, 2015 is as follows:

	Unvested Restricted Shares	Weighted Average Grant Date Fair Value
Balance, December 31, 2014	579	$ 17.20
Granted	30	12.47
Vested	(26)	12.86
Forfeited		
Balance, June 30, 2015	583	$ 17.15

A summary of restricted stock award activity for the six months ended June 30, 2014 is as follows:

	Unvested Restricted Shares	Weighted Average Grant Date Fair Value
Balance, December 31, 2013	387	$ 14.37
Granted	226	21.39
Vested	(11)	14.95
Forfeited	(5)	23.44
Balance, June 30, 2014	597	$ 16.95

A summary of restricted stock unit activity for the six months ended June 30, 2015 is as follows:

	Unvested Restricted Stock Units	Weighted Average Grant Date Fair Value
Balance, December 31, 2014		$
Granted	11	15.49
Vested		
Forfeited		
Balance, June 30, 2015	11	$ 15.49

There were no restricted stock units issued or outstanding at or during the three or six months ended June 30, 2014.

Restricted shares and restricted stock units are subject to forfeiture and cannot be sold or otherwise transferred until they vest. If the holder of the restricted shares or stock units leaves us before they vest, other than due to termination by us without cause, then any unvested restricted shares will be forfeited and returned to us. The restricted shares and restricted stock units granted to directors vest in equal amounts over a period of one or three years, depending on the nature of the grant. The restricted shares granted to employees generally vest over five or ten years. All restricted and unvested shares or units automatically vest upon a change in control.

The fair value of the restricted shares and restricted stock units is amortized on a straight-line basis over the respective vesting period. At June 30, 2015, the balance of unrecognized compensation cost related to unvested restricted shares was $7.7 million, which is expected to be recognized over a weighted average period of approximately 4.7 years. At June 30, 2015, the balance of unrecognized compensation cost related to unvested restricted stock units was $0.2 million, which is expected to be recognized over a weighted average period of approximately 1.0 year.

Performance Units Net income (loss) for the three months ended June 30, 2015 includes $66 thousand of pre-tax compensation costs related to outstanding performance units based on the number of awards that we expect will vest over the requisite service period and the probable outcome of the associated performance condition. Net income (loss) for the six months ended June 30, 2015 includes $101 thousand of pre-tax compensation costs related to outstanding performance units based on the number of awards that we expect will vest over the requisite service period and the probable outcome of the associated performance condition. All of the performance unit compensation expense during the three and six months ended June 30, 2015 is included in general and administrative expenses in the accompanying condensed consolidated statements of operations. There were no performance units issued or outstanding during the three or six months ended June 30, 2014.

A summary of performance unit award activity for the six months ended June 30, 2015 is as follows:

	Unvested Performance Units	Weighted Average Grant Date Fair Value
Balance, December 31, 2014	17	$ 20.57
Granted	28	12.30
Vested		
Incremental performance shares vested		
Forfeited		
Balance, June 30, 2015	45	$ 15.39

The performance units outstanding at June 30, 2015 obligate the Company to issue a variable number of shares of its common stock in the event certain cumulative earnings per share performance thresholds are met. At June 30, 2015, the number of shares issuable upon attainment of performance thresholds ranges from 23 thousand to 68 thousand shares. The fair value of the performance units are being amortized on a straight-line basis over the requisite service period. At June 30, 2015, the balance of unrecognized compensation costs related to outstanding performance units was $0.5 million, which is expected to be recognized over a weighted average period of approximately 2.0 years.

10. Commitments and Contingencies

Securities Class Action and Related Litigation On May 22, 2014, a putative securities class action lawsuit was filed against us and certain of our executive officers in the United States District Court for the Eastern District of North Carolina. Subsequently, in May and in July 2014, two additional purported securities class action lawsuits were filed against the same defendants in the United States District Courts, one in the Eastern District of North Carolina and the other in the Western District of North Carolina. On October 10, 2014, these lawsuits were consolidated in the United

States District Court for the Eastern District of North Carolina, and a lead plaintiff was appointed. As consolidated, the lawsuit was filed on behalf of all persons or entities that purchased our common stock during a purported class period from August 8, 2013 through May 7, 2014, which is the longer of the two different purported class periods used in the pre-consolidation lawsuits. A consolidated amended complaint was filed on December 29, 2014. The action alleges that certain statements made by the defendants during the class period violated federal securities laws and seeks damages in an unspecified amount. We filed a motion to dismiss the amended complaint on February 26, 2015, to which plaintiffs responded on April 30, 2015. We filed our reply brief on June 4, 2015. We cannot provide any assurance as to when or how the court will rule on our motion to dismiss. We believe that the claims asserted in this class action litigation are without merit, and we intend to vigorously defend against all such allegations.

On August 15, 2014, a shareholder derivative complaint was filed against certain of our executive officers and each of our directors during the class period in the United States District Court for the Eastern District of North Carolina. The complaint alleges breach of fiduciary duty, waste of corporate assets and unjust enrichment by the named officers and directors in connection with substantially the same events as set forth in the class action lawsuit, seeking damages in an unspecified amount. Further action on the derivative complaint has been stayed by order of the court upon the mutual agreement of the parties, pending final resolution of the securities class action.

We have various insurance policies related to the risk associated with our business, including directors and officers liability insurance policies. However, there is no assurance that our insurance coverage will be sufficient or that our insurance carriers will cover all claims. The ultimate outcome of these proceedings cannot be accurately predicted due to the inherent uncertainty of litigation and the litigation is at a very early stage. Other than an immaterial amount for expected legal expenses, we have not recognized any costs for the securities class actions as we do not believe, based upon current information, that a loss relating to these matters is probable, or that an estimate of a range of potential loss relating to these matters, can reasonably be made.

Performance Bonds and Letters of Credit In the ordinary course of business, we are required by certain customers to post surety or performance bonds or letters of credit in connection with services that we provide to them. These bonds and letters of credit provide a guarantee to the customer that we will perform under the terms of a contract and that we will pay subcontractors and vendors. If we fail to perform under a contract or to pay subcontractors and vendors, the customer may demand that the surety, in the case of a performance bond, or our lenders, in the case of a letter of credit, make payments or provide services under the bond. We must reimburse the surety or our lenders for any expenses or outlays they incur. We have not been required to make any reimbursements to our sureties for bond-related costs, and we do not currently expect that we will have to fund significant claims under our surety arrangements in the foreseeable future. As of June 30, 2015, we had approximately $304.2 million in surety bonds outstanding. Based upon the current status of the completion of our contracts and projects, we estimate our exposure on these surety bonds was approximately $81.8 million at June 30, 2015. In July 2015, we obtained additional bonding in the amount of approximately $85.0 million in connection with a July 2015 utility-scale solar project discussed in greater detail below.

Employee Matters From time to time, we hire employees that are subject to restrictive covenants, such as non-competition agreements with their former employers. We comply, and require our employees to comply, with the terms of all known restrictive covenants. However, we have in the past and may in the future receive claims and demands by some former employers alleging actual or potential violations of these restrictive covenants. These claims are inherently difficult to predict, and therefore we generally cannot provide any assurance of the outcome of claims. We do not have any specific claims outstanding at this time.

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

We estimate that from time to time we have performance issues related to component parts which have a cost basis of approximately 5-10% of our estimated annual revenues, although not necessarily limited to this amount, which are installed in equipment we own and have sold to various customers across our business lines, and additional performance issues could arise in the future. In addition, the failure or inadequate performance of these components pose potential material and adverse effects on our business, operations, reputation and financial results, including reduced revenues for projects in process or future projects, reduced revenues for recurring revenue contracts which are dependent on the performance of the affected equipment, additional expenses and capital cost to repair or replace the affected equipment, inventory write-offs for defective components held in inventory, asset write-offs for company-owned systems which have been deployed, the cancellation or deferral of contracts by our customers, or claims made by our customers for damages as a result of performance issues.

We have experienced performance issues with two types of component parts, in particular, which we have made progress in correcting or mitigating, but which continue to represent operational and financial risks to our business: 1) a component we incorporated into a distributed generation system configuration installed in many of the systems deployed for our customers has been deemed to invalidate the generator manufacturer s warranty and may cause other customer issues and costs, and 2) generators we purchased from a certain supplier have had performance issues in a system we own, and for which we have a performance-based recurring revenue contract that is dependent on the system s successful operation. In both of these matters, we have actively worked to correct and resolve the performance issues and have made progress in mitigating certain elements of their risk, but the risk is not eliminated. Given that we continue to have risk related to these matters, and the inherent uncertainty in assessing and quantifying the costs and certainty regarding their resolution, we are unable to estimate the potential negative impacts from these two particular items, if any, in addition to other component part performance issues discussed above. In addition, we have not recorded any specific adjustment to our warranty reserve for these particular performance issues, other than our regular reserves for minor repairs, as the estimated cost, if any, of fulfilling our obligations for these matters within a possible range of outcomes is not determinable as of this date.

Utility-Scale Solar Energy Project Contract Matters In July 2014, we entered into two Engineering, Procurement and Construction Agreements (EPC Contracts) with Georgia Power Company, a large investor-owned utility customer (the Utility) and in July 2015, we entered into a third EPC Contract with the Utility. The July 2015 EPC Contract was subject to the issuance by the Utility of a notice to proceed, which we received on July 21, 2015. Each of these EPC Contracts relates to a similarly sized utility-scale solar distributed generation project that will be performed for the Utility for the benefit of the Utility s customers. We expect these solar projects to generate a total of $205 million in revenues, and expect these projects to be completed and the associated revenues recognized over the course of 2015 and 2016. We also expect that these projects, which are large in scale and carry significantly lower gross profit margins as a percentage of revenues compared to traditional projects of this type, will carry single digit gross margins as a percentage of revenues. Thus, we expect the impact of these contracts to be dilutive to our consolidated gross margins as a percentage of revenues, while being accretive to our net income and earnings per share. The scheduled substantial completion and placed in service dates of the three EPC Contracts range from August 1, 2016 to December 31, 2016.

The EPC Contracts, which are virtually identical in rights and obligations and differ primarily in project descriptions, provide for customary covenants, representations, warranties and indemnities to the Utility. The EPC Contracts also include terms requiring us to provide performance guarantees and indemnification to the Utility under certain circumstances, as well as provisions requiring us to pay the Utility liquidated damages upon the occurrence of certain events, including certain delays in substantial completion and when the system is placed in service. The aggregate limit on our liability to the Utility for liquidated damages related to delays under the EPC Contracts ranges from approximately $24 million to approximately $34 million per contract, and is $82 million in total. We could have additional liabilities to the Utility for any breaches of our covenants, representations or warranties in addition to these potential liquidated damages. The EPC Contracts also contain typical events of default, including material breaches of the EPC Contracts after notice and cure periods and defaults relating to bonding and surety failures. The EPC Contracts may be terminated by us upon an event of default by the Utility, in which case we would be entitled to the payment for work performed and for actual costs incurred. We also provide a warranty on each project for three years after substantial completion of the project.

In addition, the solar projects covered by the EPC Contracts are subject to bonding requirements. In connection with these requirements, we have obtained, for the benefit of the Utility, bonding arrangements in the amount of approximately $120 million at June 30, 2015 for the two July 2014 EPC Contracts, and have obtained, for the benefit of the Utility, additional bonding arrangements in the amount of approximately $85 million in July 2015 for the third EPC Contract. The solar panel manufacturer has provided a supply bond to us in the amount of approximately $60 million that backstops the on-time delivery of quality panels.

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

11. Income Taxes

The income tax expense (benefit) for the three and six months ended June 30, 2015 and 2014 represents our income (loss) before income taxes multiplied by our best estimate of our expected annual effective tax rate taking into consideration our expectation of future earnings, federal income tax, state income tax for state jurisdictions in which we expect taxable income, potential effects of adverse outcomes on tax positions we have taken, true-up effects of prior tax provision estimates compared to actual tax returns, and our net operating loss carryforwards.

12. Segment Information

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

- Distributed Generation solutions;
- Solar Energy solutions;
- Utility Infrastructure solutions; and
- Energy Efficiency solutions.

The Distributed Generation and Solar Energy reporting segments, described in greater detail below, had previously been reported on a combined basis under our Distributed Generation segment as they both utilized distributed generation technology solutions in their products and services, and they shared overhead costs. As a result of the utility-scale solar projects awarded to us in July 2014, we expect the Solar Energy operations will be a material portion of our consolidated revenues and operations in 2015 and for the foreseeable future, and it is now being supported by separate overhead costs. In addition, the cost and margin structure of the Solar Energy segment differs from our traditional Distributed Generation segment. For these reasons, we determined it was appropriate to report our Distributed Generation and Solar Energy operations as separate reporting segments commencing in 2015. Our segment information for the three and six month periods ended June 30, 2014 have been reclassified to conform to our current presentation.

Our Chief Operating Decision Maker (CODM) reviews revenues including intersegment revenues, gross profit and operating income (loss) before income taxes when evaluating segment performance and allocating resources to each segment. Accordingly, intersegment revenue is included in the segment revenues presented in the tables below and is eliminated from revenues and cost of sales in the Eliminations and Other column. The Eliminations and Other column also includes various expense items that we do not allocate to our operating segments. These expenses include corporate overhead and corporate-wide items such as legal and professional fees as well as expense items for which we have not identified a reasonable basis for allocation. The accounting policies of the reportable segments are the same as those described in Note 2 of the notes to condensed consolidated financial statements.

Distributed Generation

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

Solar Energy

Our Solar Energy segment engineers, procures, constructs and maintains solar power generation equipment for utilities, independent power producers, developers who sell power to utilities and industrial, commercial and institutional customers for on site power requirements. Our Solar Energy systems use photovoltaic solar panels (which we do not manufacture) to provide utilities and their customers with environmentally friendly power to augment their core power requirements.

Utility Infrastructure

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

Our largest source of revenue within our Utility Infrastructure area is our UtilityServices products and services. We have significantly expanded our UtilityServices scope of utility relationships, customers and geography over the last few years. Our UtilityServices team provides utilities with transmission and distribution system construction and maintenance, including substation construction and maintenance, advanced metering and lighting installations, and storm restoration. In addition to providing these services directly to utilities, we also perform this work on behalf of utilities for their large industrial and institutional customers, and directly to large oil and gas companies.

Through our Encari, UtilityEngineering and PowerServices teams, we serve the engineering and consulting needs of our utility clients, broadening our offerings to our utility partners. The scope of services that we offer through UtilityEngineering includes technical engineering services for our utility partners and their customers, including design and engineering relating to virtually every element of their transmission and distribution systems, substations and renewable energy facilities. Through PowerServices, we provide management consulting services to utilities and commercial and industrial customers, including planning and quality improvement, technical studies involving reliability analysis and rate analysis, acquisition studies, accident investigations and power supply contracts and negotiations. Our Encari business, which we acquired in October 2013, provides cybersecurity consulting and regulatory compliance services to the utility industry.

Energy Efficiency

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

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Summarized financial information concerning our reportable segments is shown in the following tables.

	Three Months Ended June 30, 2015					
	Distributed Generation	Solar Energy	Utility Infrastructure	Energy Efficiency	Eliminations and Other	Total
Revenues	$ 34,263	$ 24,985	$ 33,264	$ 14,860	$ (190)	$ 107,182
Cost of Sales (excluding depreciation and amortization)	22,530	22,695	28,229	9,847	(190)	83,111
Gross Profit	11,733	2,290	5,035	5,013		24,071
Operating expenses:						
General and administrative	4,723	940	3,347	2,799	4,896	16,705
Selling, marketing and service	1,423	196	361	703	290	2,973
Depreciation and amortization	1,079	32	830	365	306	2,612
Restructuring charges						
Total operating expenses	7,225	1,168	4,538	3,867	5,492	22,290
Operating income (loss)	4,508	1,122	497	1,146	(5,492)	1,781
Other income and (expenses):						
Interest income and other income					2	2
Interest expense					(287)	(287)
Income (loss) before income taxes	$ 4,508	$ 1,122	$ 497	$ 1,146	$ (5,777)	$ 1,496
Total goodwill at June 30, 2015	$ 11,403	$ 4,914	$ 2,325	$ 21,568	$	$ 40,210
Total assets at June 30, 2015	$ 115,325	$ 16,408	$ 54,979	$ 45,744	$ 37,224	$ 269,680

	Three Months Ended June 30, 2014					
	Distributed Generation	Solar Energy	Utility Infrastructure	Energy Efficiency	Eliminations and Other	Total
Revenues	$ 20,205	$ 2,108	$ 23,770	$ 11,407	$ (421)	$ 57,069
Cost of Sales (excluding depreciation and amortization)	13,195	1,885	20,257	7,822	(421)	42,738
Gross Profit	7,010	223	3,513	3,585		14,331
Operating expenses:						
General and administrative	2,886	470	2,626	2,640	5,048	13,670
Selling, marketing and service	985	112	318	700	351	2,466
Depreciation and amortization	781	24	867	305	160	2,137
Restructuring charges						

Total operating expenses		4,652		606		3,811		3,645		5,559		18,273
Operating income (loss)		2,358		(383)		(298)		(60)		(5,559)		(3,942)
Other income and (expenses):												
Interest income and other income										5		5
Interest expense										(292)		(292)
Income (loss) before income taxes	$	2,358	$	(383)	$	(298)	$	(60)	$	(5,846)	$	(4,229)

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	Six Months Ended June 30, 2015					
	Distributed Generation	Solar Energy	Utility Infrastructure	Energy Efficiency	Eliminations and Other	Total
Revenues	$ 64,994	$ 31,333	$ 62,147	$ 28,422	$ (205)	$ 186,691
Cost of Sales (excluding depreciation and amortization)	41,411	28,428	53,262	18,395	(205)	141,291
Gross Profit	23,583	2,905	8,885	10,027		45,400
Operating expenses:						
General and administrative	9,083	1,719	6,220	6,054	9,263	32,339
Selling, marketing and service	2,637	293	697	1,294	800	5,721
Depreciation and amortization	2,149	64	1,606	757	513	5,089
Restructuring charges						
Total operating expenses	13,869	2,076	8,523	8,105	10,576	43,149
Operating income (loss)	9,714	829	362	1,922	(10,576)	2,251
Other income and (expenses):						
Interest and other income					3	3
Interest expense					(556)	(556)
Income (loss) before income taxes	$ 9,714	$ 829	$ 362	$ 1,922	$ (11,129)	$ 1,698
Total capital expenditures YTD 2015	$ 3,223	$ 268	$ 1,918	$ 380	$ 780	$ 6,569

	Six Months Ended June 30, 2014					
	Distributed Generation	Solar Energy	Utility Infrastructure	Energy Efficiency	Eliminations and Other	Total
Revenues	$ 37,195	$ 2,613	$ 50,598	$ 19,881	$ (421)	$ 109,866
Cost of Sales (excluding depreciation and amortization)	23,822	2,424	44,424	14,245	(421)	84,494
Gross Profit	13,373	189	6,174	5,636		25,372
Operating expenses:						
General and administrative	5,916	977	5,549	4,711	9,561	26,714
Selling, marketing and service	2,036	225	622	1,171	421	4,475
Depreciation and amortization	1,559	48	1,726	665	317	4,315
Restructuring charges				427		427
Total operating expenses	9,511	1,250	7,897	6,974	10,299	35,931
Operating income (loss)	3,862	(1,061)	(1,723)	(1,338)	(10,299)	(10,559)
Other income and (expenses):						
Interest and other income					9	9
Interest expense					(592)	(592)

Income (loss) before income taxes	$ 3,862	$ (1,061)	$ (1,723)	$ (1,338)	$ (10,882)	$ (11,142)

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Item 2. Management s Discussion and Analysis of Financial Conditionand Results of Operations
Introduction

The following discussion and analysis of our consolidated results of operations for the three and six month periods ended June 30, 2015, which we refer to as the second quarter 2015 and six month period 2015, respectively, and the three and six month periods ended June 30, 2014, which we refer to as the second quarter 2014 and six month period 2014, respectively, and of our consolidated financial condition as of June 30, 2015 should be read in conjunction with our condensed consolidated financial statements and related notes included elsewhere in this report.

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q and the documents incorporated into this report by reference contain forward-looking statements within the meaning of and made under the safe harbor provisions of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. 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, 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, estima plan, potential, opportunity and scheduled, variations of such words, and other comparable terminology and similar expressions 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 (loss), earnings (loss) per share, margins, profitability, cash flow, cash position, liquidity, financial condition and results of operations, our targeted growth rate 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 (loss), earnings (loss) per share, margins, profitability, cash flow, 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 effects on our financial condition, results of operations and prospects of our business acquisitions;

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;

- fluctuations in the gross margins of the projects and changes to customer relationships in each of our segments, as well as our ability to address inefficiencies in our Utility Infrastructure segment and improve the segment s gross margins;

- the timing of, and our ability to successfully execute on, the large solar projects;

- 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, including but not limited to the securities class action litigation, warranty claims and other claims and proceedings that arise from time to time.

Any forward-looking statements we make are based on our current plans, intentions, objectives, goals, 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 our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, as amended or supplemented in subsequently filed Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, 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.

Overview

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

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

The Distributed Generation and Solar Energy operating segments, described in greater detail below, had previously been reported on a combined basis under our Distributed Generation segment as they both utilized distributed generation technology solutions in their products and services, and they shared overhead costs. As a result of the utility-scale solar projects awarded to us in July 2014, we expect the Solar Energy operations will be a material portion of our consolidated revenues and operations in 2015 and for the foreseeable future, and it is now being supported by separate overhead costs. In addition, the cost and margin structure of the Solar Energy segment differs from our traditional Distributed Generation segment. For these reasons, we determined it was appropriate to report our Distributed Generation and Solar Energy operations as separate reporting segments commencing in 2015.

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

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

Distributed Generation

Our Distributed Generation segment manufactures, installs and operates electric generation equipment on site at a facility where the power is used, including commercial, institutional and industrial operations. Our Distributed Generation systems typically utilize our proprietary PowerBlock units or, alternatively, generators sourced from major global generator manufacturers as the power plants for our systems. Our systems provide a highly dependable backup power supply during power outages, and provide a more efficient and environmentally friendly source of power during high cost periods of peak power demand. These two sources of value benefit both utilities and their large customers. In October 2014, we acquired the Mission Critical Data Center Energy Services (formerly referred to as Mission Critical Energy Services) operations which provides full turnkey electrical infrastructure design, implementation and commissioning services to data center owners. The Mission Critical Data Center Energy Services operations have been integrated within our Distributed Generation segment.

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

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

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

In the six month period 2015, 87.4% of our Distributed Generation systems revenues consisted of customer-owned system sales, and 12.6% of our Distributed Generation systems revenues were derived from recurring revenue sales. Sales of customer-owned systems deliver revenues and profits that are recorded on our financial statements over the course of the project, which is generally over a three to 18 month timeframe depending on the size of the project, and sales of PowerSecure-owned projects are recorded over a longer time frame of five to 15 years depending on the life of the underlying contract. Therefore, shifts in the sales of customer-owned versus PowerSecure-owned systems have significant impacts on our near-term revenues and profits and cause them to fluctuate from period-to-period. An additional contrast of the two models is that sales under the PowerSecure-owned system model generate revenues and profits that are more consistent from period-to-period and have higher gross margins, and generate revenues and profits over a longer time period, although smaller in dollar amount in any particular period because they are recognized over the life of the contract. Our PowerSecure-owned recurring revenue model requires us to invest our own capital in the project without any return on capital until after the project is completed, installed, commissioned and successfully operating.

Solar Energy

Our Solar Energy operating segment, which is operated primarily by our PowerSecure Solar subsidiary, is a natural extension of our traditional Distributed Generation product and service segment. Our Solar Energy systems use photovoltaic solar panels (which we do not manufacture) to provide utilities and their customers with environmentally friendly power to augment their core power requirements. Our PowerSecure Solar team provides us with the ability to deliver Solar Energy systems integrated with our Distributed Generation solutions platform. These Solar Energy systems are sold under the project-based, customer-owned model. Our Solar Energy distributed generation business has recently significantly expanded under a major award from one of the largest investor-owned utilities in the U.S. to provide three utility-scale solar installations that we expect to generate approximately $205 million in revenues during 2015 and 2016.

Utility Infrastructure

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

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

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

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

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

Energy Efficiency

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

Our LED lighting products include our PowerSecure Lighting, Solais, EfficientLights, IES and EnergyLite operations and brands, all of which are focused on bringing LED lighting solutions to the marketplace. As a result of our acquisition of Solais in 2013, we realigned and consolidated these operations into PowerSecure Lighting, which is now leading all of our LED operations, although we may continue to have legacy brands in the marketplace for a period of time. In 2013, we acquired our Energy Efficiency Services business, which gives us the capability to provide general lighting, building envelope, HVAC and water efficiency solutions to ESCOs, which deliver these energy efficiency solutions to commercial, industrial and institutional facilities. On September 2, 2014, we acquired the electrical contracting business of Apex Controls, Inc. (Apex). The acquired business provides retrofit and electrical contracting services to major retailers, in most cases through general contractors, and provides us with the capacity to provide our Energy Efficiency Services solutions to large retailers.

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

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

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

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

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

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

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

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

Our LED lighting product line includes:

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

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

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

The majority of our LED lights are sold as retrofits for existing traditional lighting, and to a lesser extent for new construction lighting installations. Additionally, historically the majority of our lights have been sold by us directly to our customers, although we also have distributor relationships that serve certain product lines and are becoming an increasing part of our sales channels. Occasionally we provide installation services, although that is not a significant portion of our business. We also assist our customers in receiving utility incentives for LED lighting. Our customers are primarily large retail chains, utilities, department stores, and large commercial and industrial customers. These customers typically install

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LED lighting across numerous locations over a diverse geographic scope. We expect our customer base and sales channels to continue to grow and develop as LED technology continues to be more widely adopted. As we bring additional products to market, we expect to employ a similar business model with our LED lighting products with a greater portion of our sales driven through distributorship channels.

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

Recent Developments

On July 21, 2015, we announced that we received approximately $40 million in new business awards, including approximately $9 million of new Distributed Generation awards, approximately $13 million of new Utility Infrastructure awards, approximately $14 million of new Energy Efficiency awards and approximately $4 million of new Solar Energy awards.

On July 10, 2015, we announced that we received approximately $100 million in new Solar Energy business awards, including an $85 million ground-mount system for one of the largest investor-owned utilities in the United States. We expect to recognize approximately $15 million in revenue from these new Solar Energy awards in the fourth quarter of 2015 and $85 million throughout 2016. We also expect that the utility-scale project will carry single digit gross margins as a percentage of revenues, which is significantly lower than our other business segments. This lower overall project gross margin will be driven by the very small gross margin we receive on the solar panels (which we do not manufacture), the cost of which is a significant portion of our overall cost of the project. As a result, we expect that the utility-scale solar project will be dilutive to our consolidated gross margins as a percentage of revenues, while being accretive to our net income and earnings per share. The new utility-scale Solar Energy award has been contracted with the utility and notice to proceed was issued by the utility on July 21, 2015.

On May 26, 2015, we announced that we received approximately $25 million in new Distributed Generation business awards. These Distributed Generation awards include $13 million of company-owned Distributed Generation systems, $9 million in new data center business for new and existing customers, and $3 million of new customer-owned projects for major retailers and municipalities.

Financial Results Highlights

Our consolidated revenues in the second quarter 2015 were $107.2 million, an increase of $50.1 million, or 87.8%, over our consolidated revenues during the second quarter 2014. The drivers of this year-over-year revenue increase were revenue increases in each of our operating segments, as follows: a $14.1 million, or 69.6%, increase in our Distributed Generation segment revenues; a $22.9 million, or 1,085.2%, increase in our Solar Energy segment revenues; a $9.5 million, or 39.9%, increase in our Utility Infrastructure segment revenues; and a $3.5 million, or 30.3%, increase in our Energy Efficiency segment revenues. The increase in our Distributed Generation segment revenues during the second quarter 2015 was a result of an increase in traditional turn-key Distributed Generation project sales and an increase in sales from our recently acquired Mission Critical Data Center Energy Services operations. The increase in our Solar Energy segment revenues reflects an increase in the number and size of solar projects we are executing year-over-year, as well as an overall increase in customer demand for solar solutions, driven, in part, by the scheduled expiration or reduction of the alternative energy investment tax credits at the end of 2016. The increase in our Utility Infrastructure revenues was due to a $10.0 million increase in UtilityServices revenues, partially offset by a $0.5 million reduction in revenues from engineering and consulting services. The increase in our UtilityServices revenue was primarily due to our focus on new business development activity as we improved operational performance in our UtilityServices operations. The increase in our Energy Efficiency segment revenues was due to a $1.1 million increase in LED lighting product sales and a $2.4 million increase in revenues from our Energy Efficiency Services projects.

Our second quarter 2015 gross margin as a percentage of revenue decreased to 22.5%, compared to 25.1% in the second quarter 2014, on a consolidated basis. This year-over-year gross profit margin decrease was driven by increases in revenues from our Solar Energy segment, which include utility-scale solar projects which carry lower gross margins. To a lesser extent, our gross margins were affected by a mix of lower margin projects in our Distributed Generation reporting segment, partially offset by increases in our Utility Infrastructure and Energy Efficiency reporting segments. Distributed Generation segment gross profit margins were 34.2% in the second quarter 2015 compared to 34.7% in the second quarter 2014. Solar Energy segment gross profit margins were 9.2% in the second quarter 2015 compared to 10.6% in the second quarter 2014. Utility Infrastructure segment gross profit margins were 15.1% in the second quarter 2015 compared to 14.8% in the second quarter 2014. Energy Efficiency segment gross profit margins were 33.7% in the second quarter 2015 compared to 31.4% in the second quarter 2014. Our Distributed Generation segment gross profit margin decreased due to differences in the mix of projects period-to-period. Our Solar Energy segment gross profit margin decreased due to the effects of the lower-margin utility-scale projects in the second quarter 2015 compared to the second quarter 2014. The improvement in our Utility Infrastructure segment gross profit margin is due to improved operational efficiencies within our UtilityServices operations. The Energy Efficiency segment gross profit margin improvement was driven primarily by improvements in our LED product gross margins. As is always the case, variability in our quarterly and year-to-date gross profit margins is also caused by regular on-going differences in the mix of specific projects completed in each period.

Our operating expenses during the second quarter 2015 increased by $4.0 million, or 22.0%, compared to our operating expenses during the second quarter 2014. The year-over-year increase in operating expenses was driven by increases in general and administrative expense due to incremental operating expenses associated with the acquisition of the Retail Energy Services business within our Energy Efficiency Services operations in September 2014 and our acquisition of the Mission Critical Data Center Energy Services business within our Distributed Generation segment in October 2014. The remaining year-over-year increase in our operating expenses was driven by increases in personnel, employee benefits and insurance, stock compensation expense, and professional fees to support our growing business platforms, an increase in selling expenses due to additional sales executives and sales compensation, and an increase in depreciation and amortization from our investments in utility infrastructure equipment, company-owned distributed generation systems, and acquisition-related intangibles.

Our consolidated operating income for the second quarter 2015 was $1.8 million compared to an operating loss of ($3.9) million for the second quarter 2014. The growth in our consolidated operating income was driven primarily by the increase in revenues and gross profit in each of our segments, despite the reduction in our consolidated gross profit margin. The following table summarizes our operating income (loss) by reporting segment for the periods indicated (dollars in thousands):

	Quarter Ended June 30,		Period-over-Period Difference	
	2015	**2014**	**$**	**%**
Segment operating income (loss):				
Distributed Generation	$ 4,508	$ 2,358	$ 2,150	91.2%
Solar Energy	1,122	(383)	1,505	393.0%
Utility Infrastructure	497	(298)	795	266.8%
Energy Efficiency	1,146	(60)	1,206	2,010.0%
Corporate and other unallocated costs	(5,492)	(5,559)	67	1.2%

Total	$ 1,781	$ (3,942)	$ 5,723	145.2%

Our consolidated net income for the second quarter 2015 was $0.9 million, or $0.04 per diluted share, compared to a net loss of ($2.7) million, or ($0.12) per diluted share, for the second quarter 2014.

Our consolidated revenues in the six month period 2015 were $186.7 million, an increase of $76.8 million, or 69.9%, over our consolidated revenues during the six month period 2014. The drivers of this year-over-year revenue increase were revenue increases in each of our operating segments, as follows: a $27.8 million, or 74.7%, increase in our Distributed Generation segment revenues; a $28.7 million, or 1,099.1%, increase in our Solar Energy segment revenues; a $11.5 million, or 22.8%, increase in our Utility Infrastructure segment revenues; and a $8.5 million, or 43%, increase in our Energy Efficiency segment revenues. The increase in our Distributed Generation segment revenues during the six month period 2015 was a result of an increase in traditional turn-key Distributed Generation project sales and an increase in sales from our recently acquired Mission Critical Data Center Energy Services operations. The increase in our Solar Energy segment revenues reflects an increase in the number and size of solar projects we are executing year-over-year, as well as an overall increase in customer demand for solar solutions, driven, in part, by the scheduled expiration or reduction of alternative energy investment tax credit at the end of 2016. The increase in our Utility Infrastructure revenues was due to a $12.4 million increase in UtilityServices revenues, partially offset by a $0.9 million reduction in revenues from engineering and consulting services. The increase in our UtilityServices revenue was primarily due to our focus on new business development activity as we improved operational performance in our UtilityServices operations. The increase in our Energy Efficiency segment revenues was due to a $5.4 million increase in both LED lighting product sales and a $3.1 million increase in revenues from our Energy Efficiency Services projects.

Our six month period 2015 gross margin as a percentage of revenue increased to 24.3%, compared to 23.1% in the six month period 2014, on a consolidated basis. This year-over-year gross profit margin increase was driven by improvements in each of our reporting segments. Distributed Generation segment gross profit margins were 36.3% in the six month period 2015 compared to 36.0% in the six month period 2014. Solar Energy segment gross profit margins were 9.3% in the six month period 2015 compared to 7.2% in the six month period 2014. Utility Infrastructure segment gross profit margins were 14.3% in the six month period 2015 compared to 12.2% in the six month period 2014. Energy Efficiency segment gross profit margins were 35.3% in the six month period 2015 compared to 28.3% in the six month period 2014. Our Distributed Generation segment gross profit margin increased due to differences in the mix of projects period-to-period. Our Solar Energy segment gross profit margin increased due to improved efficiencies driven by the significant increase in revenues in the six month period 2015 compared to the six month period 2014. The improvement in our Utility Infrastructure segment gross profit margin is due to improved operational efficiencies within our UtilityServices operations. The Energy Efficiency segment gross profit margin improvement was driven primarily by improvements in our LED product gross margins. As is always the case, variability in our quarterly and year-to-date gross profit margins is also caused by regular on-going differences in the mix of specific projects completed in each period.

Our operating expenses during the six month period 2015 increased by $7.2 million, or 20.1%, compared to our operating expenses during the six month period 2014. The year-over-year increase in operating expenses was driven by increases in general and administrative expense due to incremental operating expenses associated with the acquisition of the Retail Energy Services business in September 2014 and Mission Critical Data Center Energy Services business in October 2014. The remaining year-over-year increase in our operating expenses was driven by increases in personnel, employee benefits and insurance, stock compensation expense, and professional fees to support our growing business platforms, an increase in selling expenses due to additional sales executives, and an increase in depreciation and amortization from our investments in utility infrastructure equipment, company-owned distributed generation systems, and acquisition-related intangibles.

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Our consolidated operating income for the six month period 2015 was $2.3 million compared to an operating loss of ($10.6) million for the six month period 2014, which included $0.7 million of restructuring charges. The following table summarizes our operating income (loss) by reporting segment for the periods indicated (dollars in thousands):

	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014	Period-over-Period Difference $	Period-over-Period Difference %
Segment operating income (loss):				
Distributed Generation	$ 9,714	$ 3,862	$ 5,852	151.5%
Solar Energy	829	(1,061)	1,890	178.1%
Utility Infrastructure	362	(1,723)	2,085	121.0%
Energy Efficiency	1,922	(1,338)	3,260	243.6%
Corporate and other unallocated costs	(10,576)	(10,299)	(277)	2.7%
Total	$ 2,251	$ (10,559)	$ 12,810	121.3%

Our consolidated net income for the six month period 2015 was $1.0 million, or $0.04 per diluted share, compared to a net loss of ($7.0) million, or ($0.32) per diluted share, for the six month period 2014, which included $0.7 million restructuring charges.

As discussed below under Fluctuations, 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, 2014 or our quarter ended June 30, 2015, will be indicative of our future results, especially in light of the current economic conditions and unfavorable credit and capital markets.

Backlog

As of July 21, 2015, our revenue backlog expected to be recognized after June 30, 2015 is $468 million. This includes revenue related to the new business awards described above under Recent Developments . Our revenue backlog represents revenue expected to be recognized after June 30, 2015, for periods including the third quarter of 2015 onward. This backlog figure compares to the revenue backlog of $402 million we reported in our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2015 filed on May 6, 2015 (the date we last reported our backlog). 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 June 30, 2015

Description		Anticipated Revenue	Estimated Primary Recognition Period
Project-based Revenue	Near term	$ 246 million	3Q15 through 1Q16
Project-based Revenue	Long term	$ 144 million	2Q16 through 4Q16

Recurring Revenue	$ 78 million	3Q15 through 2020
Revenue Backlog expected to be recognized after June 30, 2015	**$ 468 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 by our customers, subject to contractual rights, 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.

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Operating Segments

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

- Distributed Generation solutions;