

POWERSECURE INTERNATIONAL, INC.

Form 10-Q

August 04, 2011

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

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended June 30, 2011**

**or**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number 1-12014**

**POWERSECURE INTERNATIONAL, INC.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

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

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

27587  
(Zip code)

(919) 556-3056

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No   
As of August 1, 2011, 18,966,529 shares of the issuer's Common Stock were outstanding.



**POWERSECURE INTERNATIONAL, INC.**  
**FORM 10-Q**  
**For the Quarterly Period Ended June 30, 2011**  
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**PART I.**  
**FINANCIAL INFORMATION**

**Item 1. Financial Statements**

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

	<b>June 30, 2011</b>	<b>December 31, 2010</b>
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 36,148	\$ 8,202
Trade receivables, net of allowance for doubtful accounts of \$302 and \$415, respectively	41,869	29,290
Assets of discontinued operations held for sale		12,183
Inventories	26,028	25,011
Current deferred income taxes	1,667	1,731
Prepaid expenses and other current assets	776	933
Total current assets	106,488	77,350
Property, plant and equipment:		
Equipment	31,257	24,946
Furniture and fixtures	280	280
Land, building and improvements	5,627	5,720
Total property, plant and equipment, at cost	37,164	30,946
Less accumulated depreciation and amortization	6,857	5,899
Property, plant and equipment, net	30,307	25,047
Other assets:		
Goodwill	7,970	7,970
Deferred income taxes, net of current portion	154	1,244
Restricted annuity contract	2,341	2,306
Intangible rights and capitalized software costs, net of accumulated amortization of \$2,816 and \$2,463, respectively	1,853	1,942
Investment in unconsolidated affiliate	1,445	4,346
Other assets	287	324
Total other assets	14,050	18,132

<b>Total Assets</b>	\$ 150,845	\$ 120,529
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*See accompanying notes to consolidated financial statements.*

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

	<b>June 30, 2011</b>	<b>December 31, 2010</b>
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Accounts payable	\$ 7,339	\$ 8,438
Accrued and other liabilities	14,618	10,986
Liabilities of discontinued operations held for sale		1,411
Current income taxes payable	989	251
Current unrecognized tax benefit	954	954
Current portion of capital lease obligations	818	796
Total current liabilities	24,718	22,836
Long-term liabilities:		
Revolving line of credit	10,000	5,000
Capital lease obligations, net of current portion	3,233	3,647
Unrecognized tax benefit	749	749
Other long-term liabilities	2,182	1,053
Total long-term liabilities	16,164	10,449
Commitments and contingencies (Notes 8 and 10)		
Stockholders Equity:		
PowerSecure International stockholders equity:		
Preferred stock undesignated, \$.01 par value; 2,000,000 shares authorized; none issued and outstanding		
Preferred stock Series C, \$.01 par value; 500,000 shares authorized; none issued and outstanding		
Common stock, \$.01 par value; 25,000,000 shares authorized; 18,966,529 and 18,701,614 shares issued and outstanding, respectively	190	187
Additional paid-in-capital	115,862	114,791
Accumulated deficit	(7,501)	(29,489)
Total PowerSecure International, Inc. stockholders equity	108,551	85,489
Noncontrolling interest	1,412	1,755
Total stockholders equity	109,963	87,244

<b>Total Liabilities and Stockholders Equity</b>	\$ 150,845	\$ 120,529
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*See accompanying notes to consolidated financial statements.*



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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Revenues	\$ 30,217	\$ 29,733	\$ 53,930	\$ 50,193
Cost of sales	22,547	20,000	38,601	32,351
 Gross profit	 7,670	 9,733	 15,329	 17,842
 Operating expenses:				
General and administrative	8,509	7,326	16,428	13,788
Selling, marketing and service	1,220	1,348	2,378	2,394
Depreciation and amortization	835	671	1,641	1,255
 Total operating expenses	 10,564	 9,345	 20,447	 17,437
 Operating income (loss)	 (2,894)	 388	 (5,118)	 405
 Other income and (expenses):				
Gain on sale of unconsolidated affiliate	21,786		21,786	
Equity income from unconsolidated affiliate	548	807	1,559	1,837
Management fees	114	142	282	296
Interest income and other income	22	23	42	53
Interest expense	(144)	(139)	(286)	(280)
 Income before income taxes	 19,432	 1,221	 18,265	 2,311
Income tax benefit (provision)	(2,339)	(228)	(2,256)	(433)
 Income from continuing operations	 17,093	 993	 16,009	 1,878
 Discontinued operations (Note 4):				
Income from operations, net of tax		291		810
Gain on disposal, net of tax			5,636	
 Income from discontinued operations, net of tax		 291	 5,636	 810
 Net income	 17,093	 1,284	 21,645	 2,688

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Less: Net (income) loss attributable to noncontrolling interest	159	40	343	(147)
Net income attributable to PowerSecure International, Inc.	\$ 17,252	\$ 1,324	\$ 21,988	\$ 2,541
Amounts attributable to PowerSecure International, Inc. common stockholders:				
Income from continuing operations, net of tax	\$ 17,252	\$ 1,033	\$ 16,352	\$ 1,731
Income from discontinued operations, net of tax		291	5,636	810
Net income	\$ 17,252	\$ 1,324	\$ 21,988	\$ 2,541
Basic earnings per share attributable to PowerSecure International, Inc. common stockholders:				
Income from continuing operations	\$ 0.91	\$ 0.06	\$ 0.87	\$ 0.10
Income from discontinued operations	.00	0.01	0.30	0.04
Net income attributable to PowerSecure International, Inc. common stockholders	\$ 0.91	\$ 0.07	\$ 1.17	\$ 0.14
Diluted earnings per share attributable to PowerSecure International, Inc. common stockholders:				
Income from continuing operations	\$ 0.90	\$ 0.06	\$ 0.86	\$ 0.10
Income from discontinued operations	.00	0.01	0.29	0.04
Net income attributable to PowerSecure International, Inc. common stockholders	\$ 0.90	\$ 0.07	\$ 1.15	\$ 0.14

*See accompanying notes to consolidated financial statements.*

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

	<b>Six Months Ended June 30,</b>	
	<b>2011</b>	<b>2010</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 21,645	\$ 2,688
Adjustments to reconcile net income to net cash used in operating activities:		
Gain on sale of unconsolidated affiliate	(21,786)	
Income from discontinued operations	(5,636)	(810)
Depreciation and amortization	1,641	1,255
Stock compensation expense	926	988
Distributions to noncontrolling shareholder		(877)
Loss on write-down or disposal of equipment	428	3
Deferred income taxes	1,154	
Equity in income of unconsolidated affiliate	(1,559)	(1,837)
Distributions from unconsolidated affiliate	607	1,618
Changes in operating assets and liabilities, net of effect of acquisition:		
Trade receivables, net	(12,580)	(9,031)
Inventories	(1,016)	(5,440)
Other current assets and liabilities	895	578
Other noncurrent assets and liabilities	1,132	193
Accounts payable	(1,099)	1,952
Restructuring charges		(325)
Accrued and other liabilities	3,525	(411)
Net cash used by continuing operations	(11,723)	(9,456)
Net cash provided by discontinued operations		956
Net cash used in operating activities	(11,723)	(8,500)
<b>Cash flows from investing activities:</b>		
Acquisition		(4,413)
Purchases of property, plant and equipment	(9,040)	(2,489)
Additions to intangible rights and software development	(268)	(432)
Proceeds from sale of property, plant and equipment		6
Proceeds from sale of unconsolidated affiliate	25,610	
Proceeds from sale of discontinued operations	16,515	
Discontinued operations investing activities		(63)
Net cash provided by (used in) investing activities	32,817	(7,391)
<b>Cash flows from financing activities:</b>		
Borrowings (payments) on revolving line of credit	5,000	

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Proceeds from sale leaseback transactions	2,097	
Payments on capital lease obligations	(393)	(373)
Proceeds from stock option exercises, net of shares tendered	148	69
Net cash provided by (used in) financing activities	6,852	(304)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	27,946	(16,195)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	8,202	20,169
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 36,148	\$ 3,974

*See accompanying notes to consolidated financial statements.*

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**POWERSECURE INTERNATIONAL, INC. AND SUBSIDIARIES**

**Notes to Unaudited Consolidated Financial Statements**

As of June 30, 2011 and December 31, 2010 and

For the Three and Six Month Periods Ended June 30, 2011 and 2010

(in thousands, except per share data)

**1. Description of Business and Basis of Presentation**

**Description of Business**

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

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

Until recently, our Energy Services segment operated through our two other principal operating subsidiaries, Southern Flow Companies, Inc., which we refer to as Southern Flow, and WaterSecure Holdings, Inc., which we refer to as WaterSecure. WaterSecure holds a significant noncontrolling minority portion of the equity interests in an unconsolidated business, Marcum Midstream 1995-2 Business Trust, a Delaware statutory trust, which we refer to as MM 1995-2 or as our WaterSecure operations. Our WaterSecure operations provided water processing, recycling, and disposal services for oil and natural gas producers in northeastern Colorado utilizing environmentally responsible technologies and processes. In June 2011, substantially all of the assets and business of MM 1995-2 were sold. Accordingly, our WaterSecure subsidiary no longer has any on-going operating activity. See Note 5 for more information regarding the sale of MM 1995-2. Our Southern Flow business, which was sold in January 2011 pursuant to a purchase agreement executed in December 2010, provided oil and natural gas measurement services to customers involved in oil and natural gas production, transportation, and processing, with a focus on the natural gas market. Due to its sale, Southern Flow's operations are now reflected as discontinued operations in the accompanying consolidated financial statements. See Note 4 for more information regarding the sale of Southern Flow. The sales of our WaterSecure and Southern Flow operations were the fulfillment of our strategy to monetize our non-core assets to focus on the businesses in our Energy and Smart Grid Solutions business segment. As a result of these sales, our Energy Services segment ceased business activities in June 2011 and we will no longer report ongoing operations in the Energy Services segment in financial periods after June 30, 2011.

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See Note 12 for more information concerning our reportable segments.

**Basis of Presentation**

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

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

In management s opinion, all adjustments (all of which are normal and recurring) have been made which are necessary for a fair presentation of the consolidated financial position of us and our subsidiaries as of June 30, 2011 and the consolidated results of our operations and cash flows for the three and six months ended June 30, 2011 and June 30, 2010.

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

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

Until April 30, 2010, our PowerSecure subsidiary held a 67% controlling ownership interest in EfficientLights. On April 30, 2010, we acquired the 33% noncontrolling ownership interest in EfficientLights at which time EfficientLights became a wholly-owned subsidiary of our PowerSecure subsidiary. Also, on April 1, 2010, our PowerSecure subsidiary acquired a 67% controlling ownership interest in IES which is consolidated in our financial statements. Accordingly, the noncontrolling interest for the three and six months ended June 30, 2011, consists solely of the noncontrolling shareholders interest in the results of IES. Similarly, the noncontrolling interest for the three and six months ended June 30, 2010 consists of the noncontrolling shareholders interest in the results of EfficientLights through April 30, 2010 and the noncontrolling shareholders interest in the results of IES commencing April 1, 2010. As a result, period-to-period comparisons of the aggregate amount of noncontrolling interests are not necessarily comparable.

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The following is a reconciliation of the amounts attributable to the noncontrolling interest for the six months ended June 30, 2011:

	Noncontrolling Interest		Total
	EfficientLights	IES	
Balance, December 31, 2010	\$	\$ 1,755	\$ 1,755
Income (loss)		(343)	(343)
Distributions			
Balance, June 30, 2011	\$	\$ 1,412	\$ 1,412

The following is a reconciliation of the amounts attributable to the noncontrolling interest for the six months ended June 30, 2010:

	Noncontrolling Interest		Total
	EfficientLights	IES	
Balance, December 31, 2009	\$ 1,107	\$	\$ 1,107
Capital contributions		2,188	2,188
Income (loss)	280	(133)	147
Distributions	(877)		