SMITH MICRO SOFTWARE INC
Form 4
July 26, 2006

FORM 4

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:	3235-0287
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Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

(Print or Type Responses)

1. Name and Address of Reporting Person *
CAMPBELL THOMAS G

(Last) (First) (Middle)

51 COLUMBIA, SUITE 200

(Street)

ALISO VIEJO, CA 92656

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
SMITH MICRO SOFTWARE INC [SMSI]

3. Date of Earliest Transaction (Month/Day/Year)
07/24/2006

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer
(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security	2. Conversion or Exercise	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any	4. Transaction Code	5. Number of Derivative Securities	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)

(Instr. 3)	Price of Derivative Security	(Month/Day/Year)	(Instr. 8)	Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)							
			Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Stock Option (right to buy) (1)	$ 13.97	07/24/2006	A(1)		5,000		07/24/2006(2)	07/23/2016	Common Stock	5,000

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
CAMPBELL THOMAS G 51 COLUMBIA SUITE 200 ALISO VIEJO, CA 92656	X			

Signatures

/s/ Diane Gulling Attorney in Fact for Thomas G. Campbell	07/26/2006
**Signature of Reporting Person	Date

Explanation of Responses:

***** If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

****** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Automatic grant to non-employee director

(2) Immediately exercisable. Shares issued on exercise are subject to a right of repurchase by the Company. Shares vest 100%, and the Company's right of repurchase lapses, upon optionee's completion of one year of service as a member of the Board measured from the grant date.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. LE="border-top:1.00px solid #000000">

Gross Profit

13,305 1,004 5,668 6,928 26,905

Operating expenses:

General and administrative

5,083 919 3,374 3,093 5,526 17,995

Selling, marketing and service

1,015 132 461 597 310 2,515

Depreciation and amortization

1,092 45 849 388 333 2,707

Restructuring charges

Total operating expenses					
7,190	1,096	4,684	4,078	6,169	23,217

Explanation of Responses:

Operating income (loss)	6,115	(92)	984	2,850	(6,169)	3,688
Other income and (expenses):						
Interest income and other income				1		1
Interest expense				(312)		(312)

Income (loss) before income taxes

$6,115 $(92) $984 $2,850 $(6,480) $3,377

Total goodwill at September 30, 2015

$11,403 $4,914 $2,325 $21,568 $ $40,210

Total assets at September 30, 2015

$119,197 $29,982 $49,587 $48,474 $42,178 $289,418

	Three Months Ended September 30, 2014					
	Distributed Generation	Solar Energy	Utility Infrastructure	Energy Efficiency	Eliminations and Other	Total
Revenues	$ 19,664	$ 6,282	$ 22,460	$ 16,806	$ (168)	$ 65,044
Cost of Sales (excluding depreciation and amortization)	12,026	5,580	19,145	10,390	(168)	46,973
Gross Profit	7,638	702	3,315	6,416		18,071
Operating expenses:						
General and administrative	3,085	530	2,738	2,744	5,183	14,280
Selling, marketing and service	1,062	111	536	616	(189)	2,136
Depreciation and amortization	786	25	886	319	165	2,181
Restructuring charges						
Total operating expenses	4,933	666	4,160	3,679	5,159	18,597
Operating income (loss)	2,705	36	(845)	2,737	(5,159)	(526)
Other income and (expenses):						
Interest income and other income					5	5
Interest expense					(329)	(329)
Income (loss) before income taxes	$ 2,705	$ 36	$ (845)	$ 2,737	$ (5,483)	$ (850)

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	Nine Months Ended September 30, 2015					
	Distributed Generation	Solar Energy	Utility Infrastructure	Energy Efficiency	Eliminations and Other	Total
Revenues	$ 102,612	$ 47,076	$ 96,840	$ 47,452	$ (307)	$ 293,673
Cost of Sales (excluding depreciation and amortization)	65,723	43,168	82,287	30,497	(307)	221,368
Gross Profit	36,889	3,908	14,553	16,955		72,305
Operating expenses:						
General and administrative	14,166	2,638	9,595	9,147	14,788	50,334
Selling, marketing and service	3,652	424	1,158	1,891	1,111	8,236
Depreciation and amortization	3,241	109	2,454	1,145	847	7,796
Restructuring charges						
Total operating expenses	21,059	3,171	13,207	12,183	16,746	66,366
Operating income (loss)	15,830	737	1,346	4,772	(16,746)	5,939
Other income and (expenses):						
Interest and other income					4	4
Interest expense					(868)	(868)
Income (loss) before income taxes	$ 15,830	$ 737	$ 1,346	$ 4,772	$ (17,610)	$ 5,075
Total capital expenditures YTD 2015	$ 4,964	$ 383	$ 2,313	$ 457	$ 896	$ 9,013

	Nine Months Ended September 30, 2014					
	Distributed Generation	Solar Energy	Utility Infrastructure	Energy Efficiency	Eliminations and Other	Total
Revenues	$ 56,859	$ 8,894	$ 73,059	$ 36,687	$ (589)	$ 174,910
Cost of Sales (excluding depreciation and amortization)	35,849	8,006	63,566	24,635	(589)	131,467
Gross Profit	21,010	888	9,493	12,052		43,443
Operating expenses:						
General and administrative	9,000	1,507	8,287	7,455	14,745	40,994
Selling, marketing and service	3,099	335	1,159	1,787	231	6,611
Depreciation and amortization	2,345	72	2,612	985	482	6,496
Restructuring charges				427		427
Total operating expenses	14,444	1,914	12,058	10,654	15,458	54,528
Operating income (loss)	6,566	(1,026)	(2,565)	1,398	(15,458)	(11,085)
Other income and (expenses):						
Interest and other income					14	14

Interest expense					(921)	(921)
Income (loss) before income taxes	$ 6,566	$ (1,026)	$ (2,565)	$ 1,398	$ (16,365)	$ (11,992)

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

The following discussion and analysis of our consolidated results of operations for the three and nine month periods ended September 30, 2015, which we refer to as the third quarter 2015 and nine month period 2015, respectively, and the three and nine month periods ended September 30, 2014, which we refer to as the third quarter 2014 and nine month period 2014, respectively, and of our consolidated financial condition as of September 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;

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- 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 amount of anticipated revenues and profits from, 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, the Solar Energy operations became a material portion of our consolidated revenues and operations in 2015 and we expect that to continue 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.

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

We currently operate primarily out of our Wake Forest, North Carolina headquarters office, and our operations also include several satellite offices and manufacturing facilities, the largest of which are in the Raleigh-Durham and Greensboro, North Carolina, Atlanta, Georgia, Bethlehem, Pennsylvania, and Stamford, Connecticut areas. The locations of our sales organization and field employees for our operations are generally in close proximity to the utilities and commercial, industrial, and institutional customers they serve. Our 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 operations which provides full turnkey electrical infrastructure design, implementation and commissioning services to data center owners. These 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

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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 nine month period 2015, approximately 87% of our Distributed Generation systems revenues consisted of customer-owned system sales, and approximately 13% 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 awards from one of the largest investor-owned utilities in the U.S. to provide three utility-scale solar installations that we currently expect to generate a total of approximately $180 million in revenues during 2015 and 2016, including revenues from such projects that we have already recognized, and which amount is subject to modification as described below.

In July 2014, we entered into two Engineering, Procurement and Construction Agreements (EPC Contracts) with a large investor-owned utility customer (the Utility), and in July 2015, we entered into a third EPC Contract with the Utility. We have been recently notified by the Utility that the size and scope of the solar project contemplated by the July 2015 EPC Contract may be reduced, due to a change in the Utility customer s requirements. Accordingly, we, along with the Utility, are evaluating the impact of potential modifications to the size and scope of this third solar project, to determine the financial impact on us and the viability of the project due to such modifications. This evaluation may result in either a mutually acceptable reduction in the size and scope of the solar project or the mutual termination of the contract. As of the date of this Report, the July 2015 EPC Contract has not been amended, restated or terminated, and the underlying solar project has not been modified. Based on the current information we have received on the size and scope of the potential reduction in this solar project by the Utility customer, we estimate that the revenues generated by the July 2015 EPC Contract will be reduced to a range we currently estimate will be between $60 million to $70 million from the original $85 million project size. However, we cannot provide any assurance that the revenues from any modification of the July 2015 EPC Contract will meet our current expectation or that the project will not be terminated in its entirety.

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

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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

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leading all of our LED operations, although we may continue to have legacy brands in the marketplace for a period of time. In 2013, we acquired our Energy Efficiency Services business, which gives us the capability to provide general lighting, building envelope, HVAC and water efficiency solutions to ESCOs, which deliver these energy efficiency solutions to commercial, industrial and institutional facilities. On September 2, 2014, we acquired the retail energy services operations of Apex Controls, Inc. (Apex). The acquired operations provides retrofit and electrical contracting services to major retailers, in most cases through general contractors, and provides us with the capacity to provide our Energy Efficiency Services solutions to large retailers.

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

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

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

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

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

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

We focus on deploying solutions to improve the energy efficiency of large facilities, including reducing energy-related expenditures, and the impact of energy use on operations and the environment. This helps the ESCO s customers save money, improve facilities and meet energy efficiency goals and mandates. Our solutions include energy efficient lighting upgrades, energy efficient mechanical and electrical retrofit and upgrade services, water conservation, building weatherization, and renewable energy project development and implementation. We provide energy solutions across a range of facilities, including high-rise office buildings, distribution facilities, manufacturing

plants, retail sites, multi-tenant residential buildings, mixed use complexes, hospitals, universities and large government sites. We plan to continue to offer our Distributed Generation and LED lighting products as part of these solutions.

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

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Our LED lighting product line includes:

- LED-based lamps and fixtures for department stores and other commercial applications, including display and down-lighting;
- LED-based lighting fixtures for grocery, drug and convenience stores, including lights for reach-in refrigerated cases, shelf and canopy lighting for open refrigerated cases, 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 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 October 21, 2015, we announced that we received approximately $50 million in new business, including approximately $33 million of new Distributed Generation business awards, approximately $9 million of new Energy Efficiency business awards and approximately $8 million of new Utility Infrastructure business awards. The $33 million in new Distributed Generation business awards include approximately $6 million in new and expanded data center projects, approximately $18 million in new turnkey Distributed Generation projects for utility, retail and municipal customers, and approximately $9 million in five-year renewals for company-owned distributed generation systems located at multiple stores and distribution centers for a Fortune 500 retailer. The $9 million of new Energy Efficiency business awards include approximately $4 million for Energy Efficiency projects with a new state agency

customer in the Northeastern U.S. that manages energy efficiency projects in that state, approximately $3 million for municipal, university and other energy efficiency programs in Canada for a major ESCO customer, and approximately $2 million for new federal, state and university energy efficiency projects in the U.S. for ESCO and other customers. The $8 million of new Utility Infrastructure business awards include approximately $3 million for utility infrastructure upgrades for the federal government, approximately $3 million to upgrade substations at a major university, and approximately $2 million of new transmission, distribution and grid hardening projects for new and existing utility customers.

On September 10, 2015, we announced that we received approximately $40 million in new business awards, including approximately $20 million of new Distributed Generation business awards and approximately $20 million of new Utility Infrastructure business awards. The $20 million in new Distributed Generation business awards include approximately $10 million in new and expanded data center projects and approximately $10 million in new turnkey

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Distributed Generation projects for hospital, industrial, municipal and retail customers. The $20 million in new Utility Infrastructure business awards includes approximately $16 million of new transmission projects for an existing investor owned utility customer and approximately $4 million of new transmission, distribution and grid hardening projects for new and existing utility customers.

Financial Results Highlights

Our consolidated revenues in the third quarter 2015 were $107.0 million, an increase of $41.9 million, or 64.5%, over our consolidated revenues during the third quarter 2014. The drivers of this year-over-year revenue increase were revenue increases in each of our reporting segments, as follows: a $18.0 million, or 91.3%, increase in our Distributed Generation segment revenues; a $9.5 million, or 150.6%, increase in our Solar Energy segment revenues; a $12.2 million, or 54.5%, increase in our Utility Infrastructure segment revenues; and a $2.2 million, or 13.2%, increase in our Energy Efficiency segment revenues. The increase in our Distributed Generation segment revenues during the third quarter 2015 was a result of an increase in traditional turn-key Distributed Generation project sales and an increase in sales from data center customers supported by the purchase of our mission critical data center energy services operations in 2014. The increase in our Solar Energy segment revenues reflects an increase in the number and size of solar projects we are executing year-over-year, as well as an overall increase in customer demand for solar solutions, driven, in part, by the scheduled expiration or reduction of the federal alternative energy investment tax credits at the end of 2016. The increase in our Utility Infrastructure revenues was driven by a $11.3 million increase in UtilityServices revenues. The increase in our UtilityServices revenue was primarily due to our focus on new business development activity. The increase in our Energy Efficiency segment revenues was due to a $6.1 million increase in revenues from our Energy Efficiency Services projects, partially offset by a $3.9 million decrease in LED lighting product sales.

Our third quarter 2015 gross margin as a percentage of revenue decreased to 25.1%, compared to 27.8% in the third quarter 2014, on a consolidated basis. This year-over-year gross profit margin decrease was primarily driven by the increase in revenues from our Solar Energy segment, which include utility-scale solar projects that carrying gross margins significantly lower than the gross margins from our other segments. To a lesser extent, our gross margins were affected by a mix of lower margin projects in our Distributed Generation and Energy Efficiency reporting segments, partially offset by a gross margin increase in our Utility Infrastructure reporting segment. Distributed Generation segment gross profit margins were 35.4% in the third quarter 2015 compared to 38.8% in the third quarter 2014. Solar Energy segment gross profit margins were 6.4% in the third quarter 2015 compared to 11.2% in the third quarter 2014. Utility Infrastructure segment gross profit margins were 16.3% in the third quarter 2015 compared to 14.8% in the third quarter 2014. Energy Efficiency segment gross profit margins were 36.4% in the third quarter 2015 compared to 38.2% in the third quarter 2014. Our Distributed Generation and Energy Efficiency segment gross profit margins decreased due to differences in the mix of projects period-to-period. Our Solar Energy segment gross profit margin decreased in the third quarter 2015 compared to the third quarter 2014 due to the impact of the lower margin utility scale solar projects. The improvement in our Utility Infrastructure segment gross profit margin is due to improved operational efficiencies within our UtilityServices operations. 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 third quarter 2015 increased by $4.6 million, or 24.8%, compared to our operating expenses during the third 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 our retail energy services operations within our Energy Efficiency Services business in September 2014, and our acquisition of our mission critical data center energy services operations 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.

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Our consolidated operating income for the third quarter 2015 was $3.7 million compared to an operating loss of ($0.5) million for the third 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 as a percentage of revenue, as operating expenses as a percentage of revenue decreased. The following table summarizes our operating income (loss) by reporting segment for the periods indicated (dollars in thousands):

	Quarter Ended September 30,		Period-over-Period Difference	
	2015	2014	$	%
Segment operating income (loss):				
Distributed Generation	$ 6,115	$ 2,705	$ 3,410	126.1%
Solar Energy	(92)	36	(128)	(355.6)%
Utility Infrastructure	984	(845)	1,829	216.4%
Energy Efficiency	2,850	2,737	113	4.1%
Corporate and other unallocated costs	(6,169)	(5,159)	(1,010)	(19.6)%
Total	$ 3,688	$ (526)	$ 4,214	801.1%

Our consolidated net income for the third quarter 2015 was $2.0 million, or $0.09 per diluted share, compared to a net loss of ($0.5) million, or ($0.02) per diluted share, for the third quarter 2014.

Our consolidated revenues in the nine month period 2015 were $293.7 million, an increase of $118.8 million, or 67.9%, over our consolidated revenues during the nine month period 2014. The drivers of this year-over-year revenue increase were revenue increases in each of our reporting segments, as follows: a $45.8 million, or 80.5%, increase in our Distributed Generation segment revenues; a $38.2 million, or 429.3%, increase in our Solar Energy segment revenues; a $23.8 million, or 32.6%, increase in our Utility Infrastructure segment revenues; and a $10.8 million, or 29.3%, increase in our Energy Efficiency segment revenues. The increase in our Distributed Generation segment revenues during the nine month period 2015 was a result of an increase in traditional turn-key Distributed Generation project sales and an increase in sales from data center customers supported by the acquisition of our mission critical data center energy services operations in 2014. The increase in our Solar Energy segment revenues reflects an increase in the number and size of solar projects we are executing year-over-year, as well as an overall increase in customer demand for solar solutions, driven, in part, by the scheduled expiration or reduction of the federal alternative energy investment tax credits at the end of 2016. The increase in our Utility Infrastructure revenues was driven by a $23.7 million increase in UtilityServices revenues. The increase in our UtilityServices revenue was primarily due to our focus on new business development activity as we improved operational performance in our UtilityServices operations. The increase in our Energy Efficiency segment revenues was due to a $9.3 million increase in revenues from our Energy Efficiency Services projects and a $1.5 million increase in LED lighting product sales.

Our nine month period 2015 gross margin as a percentage of revenue decreased slightly to 24.6%, compared to 24.8% in the nine month period 2014, on a consolidated basis. This year-over-year gross profit margin decrease was driven by an increase in revenues from our Solar Energy segment, which include utility-scale solar projects which carry lower gross margins. To a lesser extent, our gross margins were affected by a mix of lower margin projects in our Distributed Generation reporting segment, partially offset by a gross margin increase in our Utility Infrastructure and Energy Efficiency reporting segments. Distributed Generation segment gross profit margins were 35.9% in the nine month period 2015 compared to 37.0% in the nine month period 2014. Solar Energy segment gross profit margins

were 8.3% in the nine month period 2015 compared to 10.0% in the nine month period 2014. Utility Infrastructure segment gross profit margins were 15.0% in the nine month period 2015 compared to 13.0% in the nine month period 2014. Energy Efficiency segment gross profit margins were 35.7% in the nine month period 2015 compared to 32.9% in the nine month period 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 nine month period 2015 compared to the nine 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 by improvements in our LED product gross margins which was slightly offset by lower gross margins from our Energy Efficiency Services projects. As is always the case, variability in our quarterly and year-to-date gross profit margins is also caused by regular on-going differences in the mix of specific projects completed in each period.

Our operating expenses during the nine month period 2015 increased by $11.8 million, or 21.7%, compared to our operating expenses during the nine 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

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our retail energy services operations in September 2014, and our mission critical data center energy services operations in October 2014. The remaining year-over-year increase in our operating expenses was driven by increases in personnel, employee benefits and insurance, stock compensation expense, and professional fees to support our growing business platforms, an increase in selling expenses due to additional sales executives, and an increase in depreciation and amortization from our investments in utility infrastructure equipment, company-owned distributed generation systems, and acquisition-related intangibles.

Our consolidated operating income for the nine month period 2015 was $5.9 million compared to an operating loss of ($11.1) million for the nine 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):

	Nine Months Ended September 30,		Period-over-Period Difference	
	2015	2014	$	%
Segment operating income (loss):				
Distributed Generation	$ 15,830	$ 6,566	$ 9,264	141.1%
Solar Energy	737	(1,026)	1,763	171.8%
Utility Infrastructure	1,346	(2,565)	3,911	152.5%
Energy Efficiency	4,772	1,398	3,374	241.3%
Corporate and other unallocated costs	(16,746)	(15,458)	(1,288)	(8.3)%
Total	$ 5,939	$ (11,085)	$ 17,024	153.6%

Our consolidated net income for the nine month period 2015 was $3.0 million, or $0.13 per diluted share, compared to a net loss of ($7.5) million, or ($0.34) per diluted share, for the nine 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 September 30, 2015, will be indicative of our future results, especially in light of the current economic conditions and unfavorable credit and capital markets.

Backlog

Our revenue backlog stands at $447 million, as of October 21, 2015. This revenue backlog represents revenue expected to be recognized after September 30, 2015, for periods including the fourth quarter of 2015 onward. This includes revenue related to the new business awards described above under Recent Developments and reflects a $25 million downward adjustment to the expected revenue from a solar project based on our current estimate of a possible reduction in project size and scope by the customer. Our $447 million revenue backlog and the estimated timing of revenue recognition are outlined below, including project-based revenues expected to be recognized as projects are completed, and recurring revenues expected to be recognized over the life of the underlying contracts. Also outlined below, our $447 million revenue backlog is broken down between non-solar revenue backlog and solar revenue backlog.

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Revenue Backlog expected to be recognized after September 30, 2015

Description		Anticipated Revenue	Estimated Primary Recognition Period
Project-based Revenue	Near term	$ 275 million	4Q15 through 2Q16
Project-based Revenue	Long term	$ 88 million	3Q16 through 2Q17
Recurring Revenue		$ 84 million	4Q15 through 2020
Revenue Backlog expected to be recognized after September 30, 2015		**$ 447 million**	

Description	Anticipated Non-Solar Revenue	Anticipated Solar Revenue
Revenue Backlog expected to be recognized after September 30, 2015 by category	$ 274 million	$ 173 million
Revenue Backlog as reported November 5, 2014 by category	$ 220 million	$ 140 million
Change in Revenue Backlog by category	**$ 54 million**	**$ 33 million**
% Change in Revenue Backlog by category	**24.5%**	**23.6%**

Note: Anticipated revenue and estimated primary recognition periods are subject to risks and uncertainties as indicated in Cautionary Note Regarding Forward-Looking Statements above. Consistent with past practice, these amounts are not intended to constitute our total revenue over the indicated time periods, as we have additional, regular on-going revenues. Examples of additional, regular recurring revenues include revenues from engineering fees, and service revenue, among others. Numbers may not add due to rounding.

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

Operating Segments

Our operating and reporting 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 above, 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, the Solar Energy operations became a material portion of our consolidated revenues and operations in 2015 and we expect that to continue 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 nine month periods ended September 30, 2014 has been reclassified to conform to our current segment presentation.

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Results of Operations

The following discussion regarding segment revenues, gross profit, costs and expenses, and other income and expenses for the third quarter 2015 compared to the third quarter 2014 are entirely attributable to our reporting segments together with corporate and other unallocated cost items as noted in the tables and discussion below.

Third Quarter 2015 Compared to Third Quarter 2014

Revenues

Our consolidated revenues are generated entirely by product sales and services by our four reporting segments: Distributed Generation, Solar Energy, Utility Infrastructure, and Energy Efficiency. Intersegment revenues, if any, are eliminated from total segment revenues as reflected in the tables below. The following table summarizes our revenues, including intersegment revenues, by these segments for the periods indicated (dollars in thousands):

	Quarter Ended September 30,		Period-over-Period Difference	
	2015	2014	$	%
Segment Revenues:				
Distributed Generation	$ 37,616	$ 19,664	$ 17,952	91.3%
Solar Energy	15,744	6,282	9,462	150.6%
Utility Infrastructure	34,693	22,460	12,233	54.5%
Energy Efficiency	19,031	16,806	2,225	13.2%
Intersegment Eliminations	(102)	(168)	66	(39.3)%
Total	$ 106,982	$ 65,044	$ 41,938	64.5%

Our consolidated revenues in the third quarter 2015 of $107.0 million increased $41.9 million, or 64.5%, compared to the third quarter 2014, due to an increase in sales in each of our reporting segments. The increase in our revenues in the third quarter 2015 over the third quarter 2014 consisted of a $18.0 million, or 91.3%, increase in revenues from our Distributed Generation segment, a $9.5 million, or 150.6% increase in revenues from our Solar Energy segment, a $12.2 million, or 54.5%, increase in revenues from our Utility Infrastructure segment and a $2.2 million, or 13.2%, increase in revenues from our Energy Efficiency segment.

The year-over-year increase in our Distributed Generation segment revenues was driven primarily by a $9.8 million increase in traditional turn-key Distributed Generation project sales, and $8.2 million of revenues from data centers supported by our mission critical data center energy services operations, which we acquired in October 2014. The increase in our Solar Energy segment revenues reflects a year-over-year increase in the number and size of solar projects, including the two utility-scale solar installation projects we were awarded in July 2014, as well as an overall increase in customer demand for solar solutions, driven, in part, by the scheduled expiration or reduction of the federal alternative energy investment tax credits at the end of 2016. The year-over-year increase in our Utility Infrastructure segment revenues was due to a $11.3 million increase in UtilityServices revenue, together with a $0.9 million increase in revenues from engineering, consulting and management services we provide to utilities. The increase in our UtilityServices revenue was primarily due to our efforts to focus on new business development activity. The increase in our Energy Efficiency segment revenues was due to a $6.1 million increase in revenues from our Energy Efficiency Services projects, partially offset by a $3.9 million decrease in LED lighting product sales. In the near-term we expect

our revenues to continue to show year-over-year growth, although our overall revenues are always subject to project completion timing and other factors.

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

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Our future revenues will also depend on the vitality of the domestic economy, the health of the credit markets and the continuing levels of customer spending for capital improvements and energy efficiency projects, as well as our ability to secure new significant purchase orders, to expand our markets and product and service lines and to convert our sales pipeline into contract awards, and to realize the growth opportunities provided by our recent acquisitions and any future acquisitions. The amount and timing of our future revenues will also be affected by the amount and proportion of revenues generated by future PowerSecure-owned Distributed Generation recurring revenue projects, which result in revenue being recognized over a longer period. We are particularly susceptible to changes in economic conditions because our product offerings are generally considered discretionary investment items by our customers, who may delay, defer, reduce or terminate large sales orders, such as the 2015 solar project, depending on their business requirements and capital budgets.

Gross Profit and Gross Profit Margin

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

	Quarter Ended September 30,		Period-over-Period Difference	
	2015	2014	$	%
Segment Cost of Sales (excluding depreciation and amortization):				
Distributed Generation	$ 24,311	$ 12,026	$ 12,285	102.2%
Solar Energy	14,740	5,580	9,160	164.2%
Utility Infrastructure	29,025	19,145	9,880	51.6%
Energy Efficiency	12,103	10,390	1,713	16.5%
Intersegment Eliminations	(102)	(168)	66	(39.3)%
Total	$ 80,077	$ 46,973	$ 33,104	70.5%
Segment Gross Profit:				
Distributed Generation	$ 13,305	$ 7,638	$ 5,667	74.2%
Solar Energy	1,004	702	302	43.0%
Utility Infrastructure	5,668	3,315	2,353	71.0%
Energy Efficiency	6,928	6,416	512	8.0%
Total	$ 26,905	$ 18,071	$ 8,834	48.9%
Segment Gross Profit Margins:				
Distributed Generation	35.4%	38.8%		
Solar Energy	6.4%	11.2%		
Utility Infrastructure	16.3%	14.8%		
Energy Efficiency	36.4%	38.2%		
Total	25.1%	27.8%		

Cost of sales includes materials, vehicles, personnel and related overhead costs incurred to manufacture products and provide services, but excludes depreciation and amortization. Cost of sales also includes inventory write-downs occurring in the normal course of business, as well as those occurring in connection with periodic restructuring and realignment actions. Intersegment cost of sales from intersegment revenues are eliminated from total cost of sales. The 70.5% increase in our consolidated cost of sales and services for the third quarter 2015 compared to the third quarter 2014 was driven by the increase in costs associated with the 64.5% increase in revenues and other factors discussed below leading to the decrease in our consolidated gross profit margin.

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Our consolidated gross profit increased $8.8 million, or 48.9%, in the third quarter 2015 compared to the third quarter 2014. As a percentage of revenue, our consolidated gross margin in the third quarter 2015 was 25.1%, a decrease of 2.7 percentage points compared to the third quarter 2014. This year-over-year consolidated gross profit margin decrease was primarily 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 and Energy Efficiency reporting segments, partially offset by an increase in our Utility Infrastructure reporting segment.

Distributed Generation segment gross profit margins were 35.4% in the third quarter 2015 compared to 38.8% in the third quarter 2014. Solar Energy segment gross profit margins were 6.4% in the third quarter 2015 compared to 11.2% in the third quarter 2014. Utility Infrastructure segment gross profit margins were 16.3% in the third quarter 2015 compared to 14.8% in the third quarter 2014. Energy Efficiency segment gross profit margins were 36.4% in the third quarter 2015 compared to 38.2% in the third quarter 2014. Our Distributed Generation segment gross profit margins decreased slightly due to differences in the mix of projects period-to-period. Our Solar Energy segment gross profit margins decreased due to the significant increase in year-over-year revenues from the lower-margin utility-scale solar projects in the third quarter 2015 compared to the third quarter 2014. The improvement in our Utility Infrastructure segment gross profit margin is due to improved operational efficiencies within our UtilityServices operations. Our Energy Efficiency segment gross profit margin decrease was driven primarily by the reduction of sales of our higher margin LED products in the third quarter 2015 compared to the third quarter 2014, despite the overall increase in gross profit.

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

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

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

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

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

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

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

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

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

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

improvements in technology and manufacturing methods and processes;

the impact of competition on our volumes or pricing;

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

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

the geographic density of our projects;

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

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

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

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

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

other factors described below under Fluctuations .

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

Operating Expenses

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

	Quarter Ended September 30,		Period-over-Period Difference	
	2015	2014	$	%
Consolidated Operating Expenses:				
General and administrative	$ 17,995	$ 14,280	$ 3,715	26.0%
Selling, marketing and service	2,515	2,136	379	17.7%
Depreciation and amortization	2,707	2,181	526	24.1%
Total	$ 23,217	$ 18,597	$ 4,620	24.8%

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

	Quarter Ended September 30,		Period-over-Period Difference	
	2015	2014	$	%
Distributed Generation:				
General and administrative	$ 5,083	$ 3,085	$ 1,998	64.8%
Selling, marketing and service	1,015	1,062	(47)	(4.4)%
Depreciation and amortization	1,092	786	306	38.9%
Total Distributed Generation operating expenses	$ 7,190	$ 4,933	$ 2,257	45.8%
Solar Energy:				
General and administrative	$ 919	$ 530	$ 389	73.4%
Selling, marketing and service	132	111	21	18.9%
Depreciation and amortization	45	25	20	80.0%
Total Solar Energy operating expenses	$ 1,096	$ 666	$ 430	64.6%
Utility Infrastructure:				
General and administrative	$ 3,374	$ 2,738	$ 636	23.2%
Selling, marketing and service	461	536	(75)	(14.0)%
Depreciation and amortization	849	886	(37)	(4.2)%
Total Utility Infrastructure operating expenses	$ 4,684	$ 4,160	$ 524	12.6%
Energy Efficiency:				
General and administrative	$ 3,093	$ 2,744	$ 349	12.7%
Selling, marketing and service	597	616	(19)	(3.1)%
Depreciation and amortization	388	319	69	21.6%
Total Energy Efficiency operating expenses	$ 4,078	$ 3,679	$ 399	10.8%
Corporate and other unallocated costs:				
General and administrative	$ 5,526	$ 5,183	$ 343	6.6%
Selling, marketing and service	310	(189)	499	264.0%
Depreciation and amortization	333	165	168	101.8%
Total corporate and other unallocated costs	$ 6,169	$ 5,159	$ 1,010	19.6%
Total consolidated operating expenses	$ 23,217	$ 18,597	$ 4,620	24.8%

Costs related to personnel, including wages, benefits, stock compensation, bonuses and commissions, are the most significant component of our operating expenses. During the third quarter 2015, we incurred an aggregate of $1.2 million of incremental operating expenses from our retail energy services operations and our mission critical data center energy services operations, which we acquired in September 2014 and October 2014, respectively. 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 and anticipated growth, an increase in selling expenses due to additional sales executives, and an increase in depreciation and amortization from our investments in utility infrastructure equipment, company-owned distributed generation systems, and acquisition-related intangibles.

Our operating expenses as a percentage of our revenues decreased by 6.9 percentage points in the third quarter 2015 compared to the third quarter 2014. This decrease reflects operating efficiencies we experienced in the third quarter 2015 driven by increased revenue levels during that period. We anticipate that operating cost levels over the next few quarters will be relatively steady with the third quarter, supporting higher revenue levels and therefore decreasing as a percentage

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of revenue on a year-over-year basis. We also expect over the long term that our operating expenses will increase over time, but decrease as a percentage of revenue as we strive to continue to leverage our cost structure, although this is dependent on generating strong year-over-year increases in revenue growth. Of course, these expectations are dependent on the future success of our product and service lines, future economic and market conditions, and any future acquisitions. Accordingly, the timing and the amount of future increases in operating expenses will depend on the timing and level of future increases in our revenues and revenue backlog, as well as the impacts of economic and business conditions and capital markets conditions. We cannot provide any assurance as to if, when, how much or for how long economic conditions will continue to improve, or the effects of future economic conditions on our revenues, expenses or net income (loss).

General and Administrative Expenses. General and administrative expenses include personnel wages, benefits, stock compensation, and bonuses and related overhead costs for the support and administrative functions, together with unallocated corporate and other administrative costs.

The overall $3.7 million, or 26.0%, increase in our consolidated general and administrative expenses in the third quarter 2015, as compared to the third quarter 2014, was due primarily to an increase in personnel, stock compensation, rent and other expenses to support our revenue growth. The following table provides further details of our general and administrative expenses by expense category for the periods indicated (dollars in thousands):

	Quarter Ended September 30,		Period-over-Period Difference	
	2015	2014	$	%
Consolidated General and Administrative Expense:				
Personnel costs	$ 9,534	$ 8,116	$ 1,418	17.5%
Vehicle lease and rental	704	775	(71)	(9.2)%
Insurance	767	762	5	0.7%
Rent-office and equipment	436	413	23	5.6%
Professional fees and consulting	454	560	(106)	(18.9)%
Travel	593	632	(39)	(6.2)%
Telephone	251	223	28	12.6%
Meals and entertainment	299	205	94	45.9%
Utilities	101	85	16	18.8%
Other	1,679	829	850	102.5%
Corporate costs	3,177	1,680	1,497	89.1%
Total	$ 17,995	$ 14,280	$ 3,715	26.0%

A portion of the increase in each of the expense categories above during the nine month period 2015 compared to the nine month period 2014 was due to incremental general and administrative expenses during the nine month period 2015 incurred from our retail energy services operations and our mission critical data center energy services operations that we acquired in September 2014 and October 2014, respectively. Over the long-term, we expect our expenses in these areas to increase, although at lower growth rates than our revenues, as we strive to leverage our cost structure and deliver higher operating profit margins.

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

	Quarter Ended September 30,		Period-over-Period Difference	
	2015	2014	$	%
Segment General and Administrative Expense:				
Distributed Generation	$ 5,083	$ 3,085	$ 1,998	64.8%
Solar Energy	919	530	389	73.4%
Utility Infrastructure	3,374	2,738	636	23.2%
Energy Efficiency	3,093	2,744	349	12.7%
Corporate and other unallocated costs	5,526	5,183	343	6.6%
Total	$ 17,995	$ 14,280	$ 3,715	26.0%

The 64.8% increase in our third quarter 2015 Distributed Generation segment general and administrative expense compared to the third quarter 2014, was due to $0.8 million of additional costs incurred from our mission critical data center energy services operations that we acquired in October 2014, along with increases in personnel costs. The 73.4% increase in Solar Energy segment general and administrative expense is due to increases in personnel and related costs that were necessary to support the revenue growth of our Solar segment and, in particular, fulfilment of the utility-scale solar projects. The 23.2% increase in our third quarter 2015 Utility Infrastructure segment general and administrative expense compared to the third quarter 2014 was due to increases in personnel and related costs that were necessary to support the growth of our Utility Services operations. The 12.7% increase in our third quarter 2015 Energy Efficiency segment general and administrative expense compared to the third quarter 2014 was due to increases in personnel and related costs of our Energy Efficiency Services operations and, in particular, the additional costs associated with the retail energy services operations we acquired in September 2014.

Corporate and other unallocated costs include similar personnel costs as described above as well as costs incurred for the benefit of all of our business operations, such as acquisition costs, legal, Sarbanes-Oxley compliance, public company reporting, director expenses, accounting costs, and stock compensation expense on our stock options, restricted stock awards, and performance units which we do not allocate to our operating segments. The increase in our corporate and other unallocated costs during the third quarter 2015 as compared to the third quarter 2014 was due primarily to an increase in incentive compensation costs, legal and accounting costs, and stock compensation expense.

Selling, Marketing and Service Expenses. Selling, marketing and service expenses consist of personnel and related overhead costs, including commissions for sales and marketing activities, together with travel, advertising and promotion costs. The 17.7% increase in consolidated selling, marketing and service expenses in the third quarter 2015, as compared to the third quarter 2014, was due to increases in salaries due to investments in sales teams, increases in business development costs to promote growth, and travel incurred on increased revenues. The following table provides further detail of our selling, marketing and service expenses by expense category for the periods indicated (dollars in thousands):

	Quarter Ended September 30,	Period-over-Period Difference

	2015	2014	$	%
Consolidated Selling, Marketing and Service:				
Salaries	$ 1,269	$ 862	$ 407	47.2%
Commission	603	622	(19)	(3.1)%
Travel	405	383	22	5.7%
Advertising and promotion	240	297	(57)	(19.2)%
Bad debt expense (recovery)	(54)	(28)	(26)	92.9%
Vehicle lease and rental	52		52	n/m
Total	$ 2,515	$ 2,136	$ 379	17.7%

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

	Quarter Ended September 30,		Period-over-Period Difference	
	2015	2014	$	%
Segment Selling, Marketing and Service Expense:				
Distributed Generation	$ 1,015	$ 1,062	$ (47)	(4.4)%
Solar Energy	132	111	21	18.9%
Utility Infrastructure	461	536	(75)	(14.0)%
Energy Efficiency	597	616	(19)	(3.1)%
Unallocated costs	310	(189)	499	264.0%
Total	$ 2,515	$ 2,136	$ 379	17.7%

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

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

The following table provides detail of our depreciation and amortization expense by segment for the periods indicated (dollars in thousands):

	Quarter Ended September 30,		Period-over-Period Difference	
	2015	2014	$	%
Segment Depreciation and Amortization:				
Distributed Generation	$ 1,092	$ 786	$ 306	38.9%
Solar Energy	45	25	20	80.0%
Utility Infrastructure	849	886	(37)	(4.2)%
Energy Efficiency	388	319	69	21.6%
Unallocated costs	333	165	168	101.8%
Total	$ 2,707	$ 2,181	$ 526	24.1%

The 24.1% increase in consolidated depreciation and amortization expenses in the third quarter 2015, compared to the third quarter 2014, primarily reflects increased amortization expense associated with intangible assets acquired as part of our 2014 acquisition of our mission critical data center energy services operations, as well as depreciation resulting from capital investments. These capital investments are primarily investments in PowerSecure-owned Distributed Generation segment systems for projects deployed under our recurring revenue model. In the future, we expect our near-term and long-term depreciation and amortization expenses to grow reflecting depreciation on additional capital

expenditures as well as expense associated with amortization of intangible assets acquired in connection with recent and potential future acquisitions.

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Other Income and Expenses

Our other income and expenses include interest income, interest expense, and income taxes. None of these income or expense amounts are allocated to our operating segments for purposes of evaluating segment performance or allocating resources. The following table sets forth our consolidated other income and expenses for the periods indicated (dollars in thousands):

	Quarter Ended September 30,		Period-over-Period Difference	
	2015	2014	$	%
Other Income (Expense):				
Interest and other income	$ 1	$ 5	$ (4)	(80.0)%
Interest expense	(312)	(329)	17	(5.2)%
Income tax benefit (expense)	(1,385)	314	(1,699)	(541.1)%
Total	$ (1,696)	$ (10)	$ (1,686)	

Interest and Other Income. Interest and other income consists primarily of interest we earn on the interest-bearing portion of our cash and cash equivalent balances. The amount of interest income during the third quarter 2015 was less compared to the third quarter 2014 due to a reduction in the average balance of our interest-bearing cash and cash equivalent balances. Our future interest income will depend on our cash and cash equivalent balances, which will increase and decrease depending upon our profit, capital expenditures, acquisitions, working capital needs, and future interest rates.

Interest Expense. Interest expense consists of interest and finance charges on the revolving portion of our credit facility, term loans and capital leases. Interest expense decreased during the third quarter 2015, as compared to the third quarter 2014. The decrease in our interest expense reflects the effects on interest expense of a reduction in balances outstanding on our $25.0 million term loan, capital lease obligation, and our prior existing term loan due to regular payments made on those obligations over the year. In the longer term, absent any new borrowings on our existing credit facility, we expect our future interest and finance charges to decrease slightly as the balances of our borrowings are reduced by regular monthly and quarterly installments.

Income Taxes. The income tax expense or benefit we record is the result of applying our annual effective tax rate by our pre-tax income or loss. Our effective tax rate and our income tax expense or benefit includes the effects of permanent differences between our book and taxable income, changes in our deferred tax assets and liabilities, changes in the valuation allowance for our net deferred tax assets, federal and state income taxes in various state jurisdictions in which we have taxable activities, and expenses associated with uncertain tax positions that we have taken or expense reductions from uncertain tax positions as a result of a lapse of the applicable statute of limitations. Our overall effective tax rate of 41.0% in the third quarter 2015 increased, as compared to the 36.9% effective tax rate in the third quarter 2014. We recorded an income tax expense during the third quarter 2015 whereas we recorded an income tax benefit during the third quarter 2014 as we incurred a pre-tax loss during that period.

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Nine Month Period 2015 Compared to Nine Month Period 2014

Revenues

The following table summarizes our revenues, including intersegment revenues, by these segments for the periods indicated (dollars in thousands):

	Nine Months Ended September 30,		Period-over-Period Difference	
	2015	2014	$	%
Segment Revenues:				
Distributed Generation	$ 102,612	$ 56,859	$ 45,753	80.5%
Solar Energy	47,076	8,894	38,182	429.3%
Utility Infrastructure	96,840	73,059	23,781	32.6%
Energy Efficiency	47,452	36,687	10,765	29.3%
Intersegment Eliminations	(307)	(589)	282	(47.9)%
Total	$ 293,673	$ 174,910	$ 118,763	67.9%

Our consolidated revenues in the nine month period 2015 of $293.7 million increased $118.8 million, or 67.9%, compared to the nine month period 2014, due to an increase in revenue in each of our reporting segments. The increase in our revenues in the nine month period 2015 over the nine month period 2014 consisted of a $45.8 million, or 80.5%, increase in revenues from our Distributed Generation segment, a $38.2 million, or 429.3% increase in revenues from our Solar Energy segment, a $23.8 million, or 32.6%, increase in revenues from our Utility Infrastructure segment and a $10.8 million, or 29.3%, increase in revenues from our Energy Efficiency segment.

The year-over-year increase in our Distributed Generation segment revenues was driven primarily by a $19.8 million increase in traditional turn-key Distributed Generation project sales and $26.0 million of revenues from data centers supported by the acquisition of our mission critical data center energy services operations in October 2014. The increase in our Solar Energy segment revenues reflects a year-over-year increase in the number and size of solar projects, including the two utility scale solar installation projects we were awarded in July 2014, as well as an overall increase in customer demand for solar solutions, driven, in part, by the scheduled expiration or reduction of federal alternative energy investment tax credits at the end of 2016. The year-over-year increase in our Utility Infrastructure segment revenues was due a $23.9 million increase in UtilityServices revenue, slightly offset by a $0.1 million reduction in revenues from engineering, consulting and management services we provide to utilities. The increase in our UtilityServices revenue was primarily due to our efforts to focus on new business development activity. The increase in our Energy Efficiency segment revenues was due to a $1.5 million increase in LED lighting product sales and a $9.3 million increase in revenues from our Energy Efficiency Services projects. In the near-term, we expect our revenues to continue to show year-over-year growth, although our overall revenues are always subject to project completion timing and other factors.

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

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Gross Profit and Gross Profit Margin

The following table summarizes our cost of sales by segment, along with our segment gross profit and gross profit margins for the periods indicated (dollars in thousands):

	Nine Months Ended September 30,		Period-over-Period Difference	
	2015	2014	$	%
Segment Cost of Sales (excluding depreciation and amortization):				
Distributed Generation	$ 65,723	$ 35,849	$ 29,874	83.3%
Solar Energy	43,168	8,006	35,162	439.2%
Utility Infrastructure	82,287	63,566	18,721	29.5%
Energy Efficiency	30,497	24,635	5,862	23.8%
Intersegment Eliminations	(307)	(589)	282	(47.9)%
Total	$ 221,368	$ 131,467	$ 89,901	68.4%
Segment Gross Profit:				
Distributed Generation	$ 36,889	$ 21,010	$ 15,879	75.6%
Solar Energy	3,908	888	3,020	340.1%
Utility Infrastructure	14,553	9,493	5,060	53.3%
Energy Efficiency	16,955	12,052	4,903	40.7%
Total	$ 72,305	$ 43,443	$ 28,862	66.4%
Segment Gross Profit Margins:				
Distributed Generation	35.9%	37.0%		
Solar Energy	8.3%	10.0%		
Utility Infrastructure	15.0%	13.0%		
Energy Efficiency	35.7%	32.9%		
Total	24.6%	24.8%		

The 68.4% increase in our consolidated cost of sales and services for the nine month period 2015 compared to the nine month period 2014 was driven by the increase in costs associated with the 67.9% increase in revenues and other factors discussed below leading to the slight decrease in our gross profit margin.

Our consolidated gross profit increased $28.9 million, or 66.4%, in the nine month period 2015 compared to the nine month period 2014. As a percentage of revenue, our consolidated gross margin in the nine month period 2015 was 24.6%, a decrease of 0.2 percentage points compared to the nine month period 2014. This year-over-year gross profit margin decrease was driven by increases in revenues from our Solar Energy segment, which include utility-scale solar projects which carry lower gross margins. To a lesser extent, our gross margins were affected by a mix of lower margin projects in our Distributed Generation reporting segment, partially offset by increases in our Utility Infrastructure and Energy Efficiency reporting segments.

Distributed Generation segment gross profit margins were 35.9% in the nine month period 2015 compared to 37.0% in the nine month period 2014. Solar Energy segment gross profit margins were 8.3% in the nine month period 2015 compared to 10.0% in the nine month period 2014. Utility Infrastructure segment gross profit margins were 15.0% in the nine month period 2015 compared to 13.0% in the nine month period 2014. Energy Efficiency segment gross profit margins were 35.7% in the nine month period 2015 compared to 32.9% in the nine month period 2014. Our Distributed Generation segment gross profit margin decreased slightly due to differences in the mix of projects period-to-period. Our Solar Energy segment gross profit margin decreased due to the significant increase in year-over-year revenues from the lower-margin utility-scale solar projects in the nine month period 2015 compared to the nine month period 2014. The improvement in our Utility Infrastructure segment gross profit margin is due to improved operational efficiencies within our UtilityServices operations. In particular, our nine month period 2014 Utility Services gross profit margins were negatively impacted by the effects of unfavorable service arrangements and work assignments from a large utility customer. In June 2014, we successfully modified the service arrangement with the utility customer to improve the terms of our ongoing service, including positive adjustments to future pricing, work assignments and expected improvements in the ongoing scope of work. Our Energy Efficiency segment gross profit margin improvement was driven primarily by improvements in our LED product and service gross margins, slightly offset by lower gross margin in our Energy Efficiency Services projects.

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

Operating Expenses

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

	Nine Months Ended September 30,		Period-over-Period Difference	
	2015	2014	$	%
Consolidated Operating Expenses:				
General and administrative	$ 50,334	$ 40,994	$ 9,340	22.8%
Selling, marketing and service	8,236	6,611	1,625	24.6%
Depreciation and amortization	7,796	6,496	1,300	20.0%
Restructuring charges		427	(427)	(100.0)%
Total	$ 66,366	$ 54,528	$ 11,838	21.7%

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

	Nine Months Ended September 30,		Period-over-Period Difference	
	2015	2014	$	%
Distributed Generation:				
General and administrative	$ 14,166	$ 9,000	$ 5,166	57.4%
Selling, marketing and service	3,652	3,099	553	17.8%
Depreciation and amortization	3,241	2,345	896	38.2%
Total Distributed Generation operating expenses	$ 21,059	$ 14,444	$ 6,615	45.8%
Solar Energy:				
General and administrative	$ 2,638	$ 1,507	$ 1,131	75.0%
Selling, marketing and service	424	335	89	26.6%
Depreciation and amortization	109	72	37	51.4%
Total Solar Energy operating expenses	$ 3,171	$ 1,914	$ 1,257	65.7%
Utility Infrastructure:				
General and administrative	$ 9,595	$ 8,287	$ 1,308	15.8%
Selling, marketing and service	1,158	1,159	(1)	(0.1)%
Depreciation and amortization	2,454	2,612	(158)	(6.0)%
Total Utility Infrastructure operating expenses	$ 13,207	$ 12,058	$ 1,149	9.5%
Energy Efficiency:				
General and administrative	$ 9,147	$ 7,455	$ 1,692	22.7%
Selling, marketing and service	1,891	1,787	104	5.8%
Depreciation and amortization	1,145	985	160	16.2%
Restructuring charges		427	(427)	(100.0)%
Total Energy Efficiency operating expenses	$ 12,183	$ 10,654	$ 1,529	14.4%
Corporate and other:				
General and administrative	$ 14,788	$ 14,745	$ 43	0.3%
Selling, marketing and service	1,111	231	880	381.0%
Depreciation and amortization	847	482	365	75.7%
Total corporate and other unallocated costs	$ 16,746	$ 15,458	$ 1,288	8.3%
Total consolidated operating expenses	$ 66,366	$ 54,528	$ 11,838	21.7%

During the nine month period 2015, we incurred an aggregate of $3.2 million of incremental operating expenses from our retail energy services operations, and our mission critical data center energy services operations, which we acquired during the third and fourth quarter of 2014, respectively. The remaining year-over-year increase in our operating expenses was driven by increases in general and administrative expense due to increases in personnel, employee benefits and insurance, stock compensation expense, and professional fees to support our growing business platforms and anticipated growth, an increase in selling expenses due to additional sales executives, and an increase in depreciation and amortization from our investments in company-owned distributed generation systems, and capitalized software.

Our operating expenses as a percentage of our revenues decreased by 8.6 percentage points in the nine month period 2015 compared to the nine month period 2014. This decrease reflects operating efficiencies we experienced in the nine month period 2015 driven by increased revenue levels during that period.

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General and Administrative Expenses. The overall $9.3 million, or 22.8%, increase in our consolidated general and administrative expenses in the nine month period 2015, as compared to the nine month period 2014, was due primarily to an increase in personnel, stock compensation, insurance, professional fees and consulting, rent and other expenses to support our investments in new business opportunities. The following table provides further details of our general and administrative expenses by expense category for the periods indicated (dollars in thousands):

	Nine Months Ended September 30,		Period-over-Period Difference	
	2015	2014	$	%
Consolidated General and Administrative Expense:				
Personnel costs	$ 27,798	$ 23,502	$ 4,296	18.3%
Vehicle lease and rental	2,029	2,339	(310)	(13.3)%
Insurance	2,172	2,157	15	0.7%
Rent-office and equipment	1,323	1,239	84	6.8%
Professional fees and consulting	1,603	1,392	211	15.2%
Travel	1,911	1,817	94	5.2%
Telephone	680	672	8	1.2%
Meals and entertainment	857	670	187	27.9%
Utilities	294	259	35	13.5%
Other	3,857	2,066	1,791	86.7%
Corporate costs	7,810	4,881	2,929	60.0%
Total	$ 50,334	$ 40,994	$ 9,340	22.8%

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

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

	Nine Months Ended September 30,		Period-over-Period Difference	
	2015	2014	$	%
Segment General and Administrative Expense:				
Distributed Generation	$ 14,166	$ 9,000	$ 5,166	57.4%
Solar Energy	2,638	1,507	1,131	75.0%
Utility Infrastructure	9,595	8,287	1,308	15.8%
Energy Efficiency	9,147	7,455	1,692	22.7%
Corporate and other unallocated costs	14,788	14,745	43	0.3%

Total	$ 50,334	$ 40,994	$ 9,340	22.8%

The 57.4% increase in our nine month period 2015 Distributed Generation segment general and administrative expense compared to the nine month period 2014, was due to $2.2 million of additional costs incurred for our mission critical data center energy services operations that we acquired in October 2014, along with increases in personnel costs to support Distributed Generation segment revenue growth. The 75.0% increase in our nine month period 2015 Solar Energy segment general and administrative expense compared to the nine month period 2014 was due to increases in personnel and related costs that were necessary to support the growth of the Solar operations and fulfilment of the utility-scale solar projects. The 15.8% increase in our nine month period 2015 Utility Infrastructure segment general and

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administrative expense compared to the nine month period 2014 was due to increases in personnel and related costs that were necessary to support the growth of our Utility Services operations. The 22.7% increase in our nine month period 2015 Energy Efficiency segment general and administrative expense compared to the nine month period 2014 was due to increases in personnel and related costs to support the growth of our LED lighting and Energy Efficiency Services operations and, in particular, the additional costs associated with our retail energy services operations which we acquired in September 2014. The slight increase in our corporate and other unallocated costs during the nine month period 2015 compared to the nine month period 2014 was due primarily to an increase in incentive compensation costs, legal and accounting costs, and stock compensation expense which was partially offset by a greater percentage of overhead costs being allocated to our operating segments in 2015 compared to 2014.

Selling, Marketing and Service Expenses. The 24.6% increase in consolidated selling, marketing and service expenses in the nine month period 2015, as compared to the nine month period 2014, was due to increases in salaries due to investments in sales teams, increases in business development costs to promote growth, and increased travel expenses. The following table provides further detail of our selling, marketing and service expenses by expense category for the periods indicated (dollars in thousands):

	Nine Months Ended September 30,		Period-over-Period Difference	
	2015	2014	$	%
Consolidated Selling, Marketing and Service:				
Salaries	$ 3,517	$ 2,450	$ 1,067	43.6%
Commission	1,670	1,707	(37)	(2.2)%
Travel	1,194	1,128	66	5.9%
Advertising and promotion	1,345	799	546	68.3%
Bad debt expense (recovery)	362	527	(165)	(31.3)%
Vehicle lease and rental	148		148	n/m
Total	$ 8,236	$ 6,611	$ 1,625	24.6%

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

	Nine Months Ended September 30,		Period-over-Period Difference	
	2015	2014	$	%
Segment Selling, Marketing and Service Expense:				
Distributed Generation	$ 3,652	$ 3,099	$ 553	17.8%
Solar Energy	424	335	89	26.6%
Utility Infrastructure	1,158	1,159	(1)	(0.1)%
Energy Efficiency	1,891	1,787	104	5.8%
Unallocated costs	1,111	231	880	381.0%

Total	$ 8,236	$ 6,611	$ 1,625	24.6%

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Depreciation and Amortization Expenses. The following table provides detail of our depreciation and amortization expense by segment for the periods indicated (dollars in thousands):

	Nine Months Ended September 30,		Period-over-Period Difference	
	2015	2014	$	%
Segment Depreciation and Amortization:				
Distributed Generation	$ 3,241	$ 2,345	$ 896	38.2%
Solar Energy	109	72	37	51.4%
Utility Infrastructure	2,454	2,612	(158)	(6.0)%
Energy Efficiency	1,145	985	160	16.2%
Unallocated costs	847	482	365	75.7%
Total	$ 7,796	$ 6,496	$ 1,300	20.0%

The 20.0% increase in consolidated depreciation and amortization expenses in the nine month period 2015, compared to the nine month period 2014, primarily reflects increased amortization expense associated with intangible assets acquired as part of our 2014 acquisition of our mission critical data center energy services operations, as well as depreciation resulting from capital investments. These capital investments are primarily investments in PowerSecure-owned Distributed Generation segment systems for projects deployed under our recurring revenue model.

Restructuring Charges. Restructuring charges consist of costs associated with realigning operations, reducing employee counts, eliminating products, exiting certain activities, changing manufacturing sourcing, and other actions designed to reduce our cost structure and improve productivity.

Our 2013 acquisitions provided us with an opportunity to restructure and realign our Energy Efficiency segment operations to increase operating margins. During the fourth quarter 2013, we initiated business realignment actions to realign the LED lighting operations of our Energy Efficiency segment to gain cost and performance efficiencies. As we completed these 2013 business realignment initiatives in early 2014, we incurred pre-tax restructuring charges totaling $0.7 million in the nine month period 2014. These 2014 charges consisted of severance and related costs from the elimination of employee positions and inventory write offs. The inventory write-offs in the amount of $0.3 million in the nine month period 2014 are included in cost of sales. The expenses associated with the remaining business realignment charges totaled $0.4 million in the nine month period 2014 and are included as a separate operating expense line item in our consolidated financial statements.

There were no similar restructuring charges during the nine month period 2015.

Other Income and Expenses

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

	Nine Months Ended September 30,		Period-over-Period Difference	
	2015	2014	$	%
Other Income (Expense):				
Interest and other income	$ 4	$ 14	$ (10)	(71.4)%
Interest expense	(868)	(921)	53	(5.8)%
Income tax benefit (expense)	(2,091)	4,449	(6,540)	(147.0)%
Total	$ (2,955)	$ 3,542	$ (6,497)	183.4%

Interest and Other Income. The amount of interest income during the nine month period 2015 was less compared to the nine month period 2014 due to a reduction in the average balance of our interest-bearing cash and cash equivalent balances.

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Interest Expense. Interest expense decreased during the nine month period 2015, as compared to the nine month period 2014. The decrease in our interest expense reflects the effects on interest expense of a reduction in balances outstanding on our $25.0 million term loan, capital lease obligation, and our prior existing term loan due to regular payments made on those obligations over the year.

Income Taxes. Our overall effective tax rate of 41.2% in the nine month period 2015 increased, as compared to the 37.1% effective tax rate in the nine month period 2014. We recorded an income tax expense during the nine month period 2015 whereas we recorded an income tax benefit during the nine month period 2014 as we incurred a pre-tax loss during that period.

Fluctuations

Our revenues, expenses, margins, net income, cash flow, cash, working capital, capital expenditures, debt, balance sheet positions, and other operating results have fluctuated significantly from quarter-to-quarter, period-to-period and year-to-year in the past and are expected to continue to fluctuate significantly in the future due to a variety of factors, many of which are outside of our control. Factors that affect our operating results include the following:

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

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

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

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

- our ability to sell, complete and recognize satisfactory levels of near-term quarterly revenues and net income related to our project-based sales and product and service revenues, which are recognized and

billed as they are completed, in order to maintain our current profits and cash flow and to satisfy our financial covenants in our credit facility and to successfully finance the recurring revenue portion of our business model;

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

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

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

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

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

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

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

permitting and regulatory or customer-caused delays on projects;

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

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

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

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

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

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

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

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

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

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

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

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

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

- changes in the prices charged by our suppliers;

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

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

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

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

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

Due to all of these factors and the other risks, uncertainties and other factors discussed in this report and in our Annual Report on Form 10-K for the year ended December 31, 2014, quarter-to-quarter, period-to-period or year-to-year

comparisons of our results of operations should not be relied on as an indication of our future performance. Quarterly, period or annual comparisons of our operating results are not necessarily meaningful or indicative of future performance.

Liquidity and Capital Resources

Overview

We have historically financed our operations and growth primarily through a combination of cash on hand, cash generated from operations, borrowings under credit facilities, leasing, and proceeds from sales of equity. On a going forward basis, we expect to require capital primarily to finance our:

operations;

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inventory;

accounts receivable;

property and equipment expenditures, including capital expenditures related to Distributed Generation PowerSecure-owned recurring revenue projects;

software purchases or development;

debt service requirements;

lease obligations;

deferred compensation obligations;

restructuring and cost reduction obligations; and

acquisitions and other business transactions.

Working Capital

At September 30, 2015, we had working capital of $72.3 million, including $26.2 million in cash and cash equivalents, compared to working capital of $70.8 million, including $33.8 million in cash and cash equivalents at December 31, 2014. Changes in the components of our working capital from December 31, 2014 to September 30, 2015 and from December 31, 2013 to September 30, 2014 are explained in greater detail below. At both September 30, 2015 and December 31, 2014, we had $20.0 million of available and unused borrowing capacity from our revolving credit facility. The availability of this capacity under our credit facility includes restrictions on the use of proceeds, and is dependent upon our ability to satisfy certain financial and operating covenants including financial ratios, as discussed below.

Cash Flows

The following table summarizes our cash flows for the periods indicated (dollars in thousands):

	Nine Months Ended September 30,	
	2015	**2014**
Net cash provided by operating activities	$ 4,249	$ 4,101
Net cash used in investing activities	(8,708)	(9,306)
Net cash used in financing activities	(3,099)	(1,850)

Net decrease in cash and cash equivalents	$ (7,558)	$ (7,055)

Cash Provided by Operating Activities

Cash provided by operating activities consists primarily of net income (loss) adjusted for certain non-cash items including depreciation and amortization and stock-based compensation expenses. Cash provided by operating activities also includes the effect of changes in working capital and other activities.

Cash provided by operating activities for the nine month period 2015 was approximately $4.2 million and consisted of $3.0 million of net income and $10.0 million of non-cash operating expenses, partially offset by $8.7 million used by changes in working capital balances. The non-cash items consisted primarily of $7.8 million of depreciation and amortization expense and $2.0 million of stock compensation expense. Cash used by working capital and other activities consisted primarily of a $30.7 million increase in accounts receivable and a $0.3 million increase in inventories. The cash used by these working capital account changes were partially offset by a $17.0 million increase in accounts payable, a $3.7 million increase in accrued and other liabilities and a net $1.6 million reduction in other current and noncurrent assets and liabilities. The fluctuations in our accounts receivable, accounts payable and our accrued and other liabilities is a function of the timing of customer remittances, payments to our vendors, and our inventory, advance billings and accrued project costs on projects in process, respectively. These working capital accounts can and do fluctuate significantly from period to period, depending on the timing and size of individual projects.

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Cash provided by operating activities for the nine month period 2014 was approximately $4.1 million and consisted of $3.7 million provided by changes in working capital balances and $7.9 million of non-cash operating expenses partially offset by our net loss of $7.5 million. The non-cash items consisted primarily of $6.5 million of depreciation and amortization expense and $1.5 million of stock compensation expense. Cash provided by working capital and other activities consisted primarily of a $10.5 million reduction in accounts receivable and increases in accounts payable and accrued and other liabilities in the amount of $5.2 million and $8.2 million, respectively. The cash provided by these working capital account changes were partially offset by increases in inventory of $12.6 million and a net $7.7 million increase in other current and noncurrent assets and liabilities.

Cash Used in Investing Activities

Cash used in investing activities was $8.7 million in the nine month period 2015 and cash used in investing activities was $9.3 million in the nine month period 2014. Historically, our principal cash investments have related to the acquisition and installation of equipment related to our recurring revenues sales, the acquisition of businesses or technologies, the purchase of equipment used in our production facilities, and the acquisitions of certain contract rights. During the nine month period 2015, we used $2.9 million to purchase and install equipment at our recurring revenue distributed generation sites, we used $6.1 million principally to acquire operational assets, and we received $0.3 million cash proceeds from the sale of property plant and equipment. During the nine month period 2014, we used $4.9 million to purchase and install equipment at our recurring revenue distributed generation sites, we used $4.1 million principally to acquire operational assets, we used $0.75 million to acquire the retail energy services operations from Apex, and we received $0.5 million cash proceeds from the sale of property plant and equipment.

Cash Used in Financing Activities

Cash used in financing activities was $3.1 million in the nine month period 2015 and cash used in financing activities was $1.9 million in the nine month period 2014. During the nine month period 2015, we used $3.5 million to make scheduled payments on our capital lease and term loan obligations, we used $0.1 million to repurchase shares of our common stock and we received $0.6 million from the exercise of stock options. During the nine month period 2014, we used $3.5 million to make scheduled payments on our capital lease and term loan obligations, we used $0.4 million to repurchase shares of our common stock and we received $2.1 million from the exercise of stock options.

Capital Spending

Our capital expenditures during the nine month period 2015 were approximately $9.0 million, of which we used $2.9 million to purchase and install equipment for our PowerSecure-owned recurring revenue distributed generation systems, and we used $6.1 million to purchase equipment and other capital items. Our capital expenditures during the nine month period 2014 were approximately $9.0 million, of which we used $4.9 million to purchase and install equipment for our PowerSecure-owned recurring revenue distributed generation systems, and we used $4.1 million to purchase equipment and other capital items, primarily to support the growth of our Utility Infrastructure products and services.

We anticipate making total capital expenditures of approximately $13 million for all of fiscal year 2015, including capital expenditures for our company-owned Distributed Generation systems deployed under long-term recurring revenue contracts, and operational assets. Customer demand for our Distributed Generation systems under recurring revenue contract arrangements, and economic and financial conditions could cause us to reduce or increase those capital expenditures. The majority of our capital spending has to date been and will continue to be used for investments in assets related to our recurring revenue projects as well as equipment to support the growth of our businesses.

Indebtedness

Long-term credit facility. We have a long-term credit facility with Citibank, N.A. (Citibank), as administrative agent and lender, and other lenders under a credit agreement that we first entered into with our lenders in August 2007 and have amended and restated from time-to-time. At September 30, 2015 and December 31, 2014, our credit agreement with

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Citibank along with Branch Banking and Trust Company (BB&T) as additional lender, consisted of a credit facility under which we had a $20.0 million 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 a senior, first-priority obligation guaranteed by all our active subsidiaries and is secured by the assets of us and those subsidiaries.

On November 3, 2015, we entered into an amendment to our credit facility with our lenders to 1) increase the size of the revolving loan to $40 million from $20 million, the amount of the availability of which will continue to be subject to our compliance with our financial covenants as amended; 2) extend the maturity date of the entire credit facility to June 30, 2020 from November 12, 2016, including the revolving loan and the $2.6 million term loan; 3) add an accordion provision permitting us to request an increase in the revolving loan by up to an additional $20 million, subject to lender s participation; and 4) reduce our financial covenant of maximum debt to capitalization ratio at the end of any fiscal quarter to 0.25 from 0.30.

The credit facility contains three basic financial covenants. First, under the credit agreement, if cash on hand does not exceed funded indebtedness by at least $5.0 million, then our minimum fixed charge coverage ratio must be in excess of 1.25, where the fixed charge coverage ratio is defined as the ratio of the aggregate of our consolidated Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) plus our lease expense minus our taxes based on income and payable in cash, divided by the sum of our consolidated interest charges plus our lease expenses plus our scheduled principal payments and dividends, computed over the previous period. Prior to the fiscal quarter ended June 30, 2015, the fixed charge coverage ratio was based on our financial results for the third quarter 2014 and subsequent fiscal quarters. Commencing with the fiscal quarter ended June 30, 2015 and continuing thereafter, the fixed charge coverage ratio is based on our financial results for the previous four fiscal quarters on a rolling basis. Second, we are required to maintain a minimum consolidated net worth, computed on a quarterly basis, of not less than the sum of $142.1 million, plus an amount equal to 50% of our net income each fiscal year commencing with the 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, at the end of any fiscal quarter commencing with the fiscal quarter ending September 30, 2015 cannot exceed 25%. As of September 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 and term loans, with Citibank and BB&T at September 30, 2015 and December 31, 2014, reflecting maturity dates resulting from the November 3, 2015 amendment:

	September 30, 2015	December 31, 2014
Revolving line of credit, maturing June 30, 2020	$	$
Term loan, principal of $0.04 million plus interest payable quarterly at variable rates, maturing June 30, 2020	1,800	1,920
Term loan, principal of $0.9 million plus interest payable quarterly at variable rates, maturing June 30, 2020	16,964	19,643

Total debt		18,764		21,563
Less: Current portion		(3,731)		(3,731)
Long-term debt, net of current portion	$	15,033	$	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

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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 September 30, 2015, are as follows, reflecting maturity dates resulting from the November 3, 2015 amendment:

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	$	$ 892	$ 40	$ 932
2016		3,571	160	3,731
2017		3,572	160	3,732
2018		3,572	160	3,732
2019 and thereafter		5,357	1,280	6,637
Total scheduled principal payments	$	$ 16,964	$ 1,800	$ 18,764

In July 2013, we entered into two forward-starting interest rate swap contracts based on three-month LIBOR that effectively converted 80% of the outstanding balance of our $25 million Term Loan to fixed rate debt. We have designated the interest rate swaps as a cash flow hedge of the interest payments due on our floating rate debt. Accordingly, at September 30, 2015, $13.6 million of our outstanding debt bears interest at a fixed rate of 3.73% and $5.2 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 $18.8 million outstanding under the two term loans under our credit facility as of September 30, 2015. There were no balances outstanding on the revolving portion of the credit facility at, or during the three months ended, September 30, 2015 or at December 31, 2014 or at November 4, 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 September 30 or November 4, 2015. Accordingly, at September 30, 2015, the full $20.0 million was available to borrow under the revolving portion of the credit facility as then in effect. As a result of the increase in the revolving line of credit under the subsequent amendment to our credit facility, as of November 4, 2015, approximately

$36 million was available to borrow under the revolving line of credit within the limits of our financial covenants. 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.

Capital Lease Obligation. 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 $85 thousand 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

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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 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.

Under the lease guaranty, we have unconditionally guaranteed the obligation of our PowerSecure subsidiary under the lease for the benefit of the lessor. Our capital lease obligation at September 30, 2015 was $0.3 million.

Preferred Stock Redemption. The terms of our Series B preferred stock required us to redeem all shares of our Series B preferred stock that remained outstanding on December 9, 2004 at a redemption price equal to the liquidation preference of $1 thousand per share plus accumulated and unpaid dividends. Our remaining redemption obligation at September 30, 2015, to holders of outstanding shares of Series B preferred stock that have not been redeemed, is $0.1 million.

Contractual Obligations and Commercial Commitments

We incur various contractual obligations and commercial commitments in our normal course of business, reflected in the table below including:

- we lease certain office space, operating facilities and equipment under long-term lease agreements;
- to the extent we borrow under the revolving portion of our credit facility, we are obligated to make future payments under that facility;
- we make repayments on two terms loans under our credit facility;
- we have an obligation to make installment payments on our PowerLine acquisition;
- we have contingent earn-out payments potentially due on our recent acquisition of the retail energy services operations from Apex;
- we have restructuring and cost reduction obligations; and

we have a deferred compensation obligation.

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In addition, at September 30, 2015, we had a liability for unrecognized tax benefits and related interest and penalties totaling $0.5 million. We do not expect a significant payment related to these obligations within the next year and we are unable to make a reasonably reliable estimate if and when cash settlement with a taxing authority would occur. Accordingly, the information in the table below, which is as of September 30, 2015, does not include the liability for unrecognized tax benefits (dollars in thousands):

		Payments Due by Period			
Contractual Obligations	**Total**	**Remainder of 2015**	**1 - 3 Years**	**4 -5 Years**	**More than 5 Years**
Revolving portion of credit facility (1)	$	$	$	$	$
Term loans (2)	19,971	1,044	8,168	7,819	2,940
Capital lease obligations (2)	254	254			
Operating leases	18,232	1,545	10,024	5,260	1,403
Deferred compensation (3)	3,137	3,137			
Installment payments due on acquisition	220		110	110	
Earnout payments due on acquisition (4)	450		450		
Series B preferred stock	104	104			
Restructuring and cost reduction obligations	53	53			
Total	$ 42,421	$ 6,137	$ 18,752	$ 13,189	$ 4,343

(1) Total repayments are based upon borrowings outstanding as of September 30, 2015, not actual or projected borrowings after such date. Repayments do not included interest that may become due and payable in any future period.

(2) Repayments amounts include interest on the term loans at the interest rate in effect as of September 30, 2015, reflecting maturity dates resulting from the November 3, 2015 amendment to our credit facility, and on the capital lease obligation at the interest rate per the agreement.

(3) Total amount represents our potential obligation on the deferred compensation arrangement, based on the first date it could commence (which is earlier than the expected date of commencement), and does not include the value of the restricted annuity contract, or interest earnings thereon, that we purchased to fund our obligation.

(4) Total amount represents the undiscounted probability-weighted estimate of the earn-out payments due. Actual total payment amount ranges from $0 to $0.5 million, dependent on achievement of certain gross profit targets of the acquired business.

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 September 30, 2015, we had approximately $423.6 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 $234.4 million at September 30, 2015.

Off-Balance Sheet Arrangements

During the third quarter 2015, we did not engage in any material off-balance sheet activities or have any relationships or arrangements with unconsolidated entities established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Further, we have not guaranteed any obligations of unconsolidated entities nor do we have any commitment or intent to provide additional funding to any such entities.

Liquidity

At September 30, 2015, we had $26.2 million in cash and cash equivalents, total working capital of $72.3 million, and the full $20.0 million available for borrowing under the revolving portion of our credit facility. As a result of the increase in the revolving line of credit under the subsequent amendment to our credit facility, as of November 4, 2015, approximately $36 million was available to borrow under the revolving line of credit within the limits of our financial covenants. Based upon our plans and assumptions as of the date of this report, we believe that our capital resources, including our cash and cash equivalents, amounts available under our credit facility, along with funds expected to be

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generated from our operations, will be sufficient to meet our anticipated cash needs, including for working capital, capital spending and debt service commitments, for at least the next 12 months. However, any projections of future cash needs and cash flows are subject to substantial risks and uncertainties. See Cautionary Note Regarding Forward-Looking Statements above in this report and Part II Item 1A. Risk Factors.

Although we believe that we have sufficient capital to fund our activities and commitments for at least the next 12 months, our future cash resources and capital requirements may vary materially from those now planned. Our ability to meet our capital needs in the future will depend on many factors, including a reduction in revenues if the demand for our products and services decreases, the timing of sales, the mix of products and services and other factors affecting our gross margins, the amount of recurring revenue projects in which we invest, our ability to meet our financial covenants under our credit facility, unanticipated events over which we have no control increasing our operating costs or reducing our revenues beyond our current expectations, and other factors listed above under Fluctuations above. For these reasons, we cannot provide any assurance that our actual cash requirements will not be greater than we currently expect or that these sources of liquidity will be available when needed.

During 2015, our working capital balances, including our cash and cash equivalents, have been affected by our progress towards completion of two utility-scale Solar Energy projects that we were awarded in July 2014. Because the solar panels (which we acquire from a third-party supplier) are a material component of the project costs, there are periods when our purchase obligations are due in advance of progress payments from our customer. The timing of cash payments to our panel supplier and cash receipts from our customer have affected the balances of our cash and cash equivalents, accounts receivable, inventory, accounts payable and accrued expenses. We expect similar effects during the remainder of 2015 and beyond as we move further towards completion of these utility-scale Solar Energy projects, and the effects on our cash resources may be material.

We also continually evaluate opportunities to expand our current or to develop new products, services, technology and businesses that could increase our capital needs. In addition, from time to time we consider the acquisition of, or the investment in, complementary businesses, products, services and technology that might affect our liquidity requirements. We may seek to raise any needed or desired additional capital from the proceeds of public or private equity or debt offerings at the parent level or at the subsidiary level or both, from asset or business sales, from traditional credit financings or from other financing sources. Furthermore, we continually evaluate opportunities to improve our credit facilities, through increased credit availability, lower debt costs or other more favorable terms. However, our ability to obtain additional capital or replace or improve our credit facilities when needed or desired will depend on many factors, including general economic and market conditions, our operating performance and investor and lender sentiment, and thus cannot be assured. In addition, depending on how it is structured, a financing could require the consent of our current lending group. Even if we are able to raise additional capital, the terms of any financings could be adverse to the interests of our stockholders. For example, the terms of a debt financing could restrict our ability to operate our business or to expand our operations, while the terms of an equity financing, involving the issuance of capital stock or of securities convertible into capital stock, could dilute the percentage ownership interests of our stockholders, and the new capital stock or other new securities could have rights, preferences or privileges senior to those of our current stockholders.

Accordingly, we cannot provide any assurance that sufficient additional funds will be available to us if needed or desired or that, if available, such funds can be obtained on terms favorable to us and our stockholders and acceptable to those parties who must consent to the financing. Our inability to obtain sufficient additional capital on a timely basis on favorable terms when needed or desired could have a material adverse effect on our business, financial condition and results of operations.

Critical Accounting Policies

Management s discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, we evaluate our estimates, including those related to revenue recognition and percentage of completion, fixed price contracts, product returns, warranty obligations, bad debt, inventories, cancellations costs associated with long term commitments, incentive compensation, investments, intangible assets, assets subject to

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disposal, income taxes, restructuring, service contracts, contingencies and litigation. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making estimates and judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Estimates, by their nature, are based on judgment and available information. Therefore, actual results could differ from those estimates and could have a material impact on our consolidated financial statements.

We have identified the accounting principles which we believe are most critical to understanding our reported financial results by considering accounting policies that involve the most complex or subjective decisions or assessments. These accounting policies described below include:

- revenue recognition;
- allowance for doubtful accounts;
- inventory valuation reserve;
- warranty reserve;
- impairment of goodwill and long-lived assets;
- deferred tax valuation allowance;
- uncertain tax positions;
- costs of exit or disposal activities and similar nonrecurring charges;
- stock-based compensation; and
- derivative financial instruments.

The accounting policies listed above are described in our Annual Report on Form 10-K for the year ended December 31, 2014 in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

Recent Accounting Pronouncements

Information about recent accounting pronouncements and their potential effects on our financial position and results of operations is included in Note 2, Summary of Significant Accounting Policies and Recent Accounting Standards of the notes to our condensed consolidated financial statements included elsewhere in this report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to certain market risks arising from transactions we enter into in the ordinary course of business. These market risks may adversely affect our financial condition, results of operations and cash flow. These market risks include, but are not limited to, fluctuations in interest rates and commodity prices, and to a lesser extent fluctuations in currency exchange rates.

We employ interest rate swap agreements for the purpose of hedging certain specifically identified interest rates. The use of these financial instruments is intended to mitigate some of the risks associated with fluctuations in interest rates, but does not eliminate such risks. We do not use derivative financial instruments for trading or speculative purposes, and except as indicated in this item we do not use derivative financial instruments to manage or hedge our exposure to interest rate changes, commodity price risks, foreign currency exchange risks or other market risks.

Interest Rate and Market Risk. We are exposed to market risk resulting from changes in interest rates. Changes in the interest rates affect the income we receive from our investments of excess cash in short-term interest-bearing

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marketable securities, because that income is dependent upon the interest rate of the securities held, and the interest expenses we pay on our borrowings under our credit facility, because the interest rate on our borrowings is based on floating interest rates as described in Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations of this report. Our lease with SunTrust is at a fixed interest rate and thus not impacted by changes in interest rates.

At September 30, 2015, our cash and cash equivalents balance was approximately $26.2 million, and $18.8 million was outstanding on two term loans under the credit facility. Our credit facility, which is comprised of a revolving credit line and two term loans, bears interest at a rate based on LIBOR or an alternative base rate based on prevailing interest rates, in each case plus an applicable margin based on our leverage ratio. From time to time we may enter into interest rate swap agreements to reduce our exposure to interest rate fluctuations under the credit facility. In July 2013, we entered into two forward-starting interest rate swap contracts to manage interest rate risk on our floating rate debt. The interest rate swaps effectively converted 80% of our $25.0 million floating rate term loan to a fixed rate term loan bearing interest at the rate of 3.73%. The notional amount of the interest rate swaps at September 30, 2015 was $13.6 million.

In accordance with ASC 815, *Derivatives and Hedging*, we have designated the interest rate swaps as cash flow hedges of the interest payments due on that portion of our floating rate debt. Accordingly, the fair value of the interest rate swaps are recorded as an asset (other assets) or as a liability (other long-term liabilities), the effective portion of the change in fair value of the interest rate swaps is recorded in other comprehensive income (loss) and the quarterly settlements are recorded as either an addition to or reduction of our interest expense for the period. The remainder of our indebtedness under our credit facility continues to bear interest at variable rates that fluctuate.

Pursuant to the swap contracts, the three-month LIBOR rate on the term loan was swapped for a fixed rate of 1.73%. When added to the term loan s current applicable margin, the interest rate applicable to 80% of the term loan has been effectively fixed at 3.73%, subject only to changes in the applicable margin. Notwithstanding the terms of the swap contracts, we remain fully obligated for all amounts due and payable on the term loan. The initial counterparties to the swap contracts are the financial institutions that are also lenders under our credit facility, but the swap contracts may be assigned to other counterparties. The termination dates of the swap contracts and maturity date of the term loan are both June 30, 2020. We may enter into additional swap transactions in the future from time to time.

Our cash equivalents are invested in a combination of bank deposits, money market or U.S. government mutual funds, short-term time deposits, and government agency and corporate obligations, or similar kinds of instruments, the income of which generally increases or decreases in proportion to increases or decreases, respectively, in interest rates. While we believe we have our cash and cash equivalents invested in very low risk investments, they are not risk free, as our bank deposits are generally in excess of FDIC insurance limits.

We do not believe that changes in interest rates have had a material impact on us in the past or are likely to have a material impact on us in the foreseeable future. For example, for the third quarter 2015, a hypothetical 1% (100 basis points) increase in the interest rate on the variable rate portion of our average outstanding borrowings under our credit facility would have resulted in an increase in our interest expense of $14 thousand, and an increase in our interest income from the average balance of our interest-bearing cash equivalents of approximately $10 thousand. Conversely, a hypothetical 1% (100 basis points) decrease of 1% (100 basis points) in the interest rate on the variable rate portion our average outstanding borrowings under our credit facility would have resulted in a decrease in our interest expense of $14 thousand, and a decrease in our interest income from the average balance of our interest-bearing cash equivalents of approximately $1 thousand.

Commodity Price Risk. From time to time we are subject to market risk from fluctuating commodity prices in certain raw materials we use in our products and from diesel fuel we use to power our generators. To date, we have managed this risk by using alternative raw materials acceptable to our customers or we have been able to pass these cost increases to our customers. While we do not believe that changes in commodity prices have had a material impact on us in the past, commodity price fluctuations could have a material impact on us in the future, depending on the magnitude and timing of such fluctuations. The impact of these fluctuations could result in an increase in our operating costs and expenses and reduction in our gross profit margins and income due to increases in the price and costs of engines, generators, copper, aluminum, electrical components, labor, electricity, diesel fuel, gasoline, oil and natural gas. Movements in prices of these commodities can materially impact our results in this segment.

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Foreign Exchange Risk. Since substantially all of our revenues, expenses and capital spending are transacted in U.S. dollars, we face minimal exposure to adverse movements in foreign currency exchange rates. However, if our international operations expand in the future, then our exposure to foreign currency risks could increase, which could materially affect our financial condition and results of operations. In addition, because our Energy Efficiency products utilize certain component parts manufactured in China, then to the extent the U.S. Dollar exchange rate with the Chinese Yuan changes significantly, our business and results of operations could be materially impacted.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of September 30, 2015, the end of the period covered by this report. Based upon management s evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that, as of September 30, 2015, our disclosure controls and procedures were designed at the reasonable assurance level and were effective at the reasonable assurance level to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

We regularly review our system of internal control over financial reporting and make changes to our processes and systems to improve controls and increase efficiency, while ensuring that we maintain an effective internal control environment. Changes may include such activities as implementing new, more efficient systems, consolidating activities and migrating processes. There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended September 30, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations in Control Systems

Our controls and procedures were designed at the reasonable assurance level. However, because of inherent limitations, any system of controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired objectives of the control system. In addition, the design of a control system must reflect the fact that there are resource constraints, and management must apply its judgment in evaluating the benefits of controls relative to their costs. Further, no evaluation of controls and procedures can provide absolute assurance that all errors, control issues and instances of fraud will be prevented or detected. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls and procedures is also based in part on certain assumptions regarding the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

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PART II

OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are involved in disputes and legal proceedings. There has been no material change in our pending legal proceedings as described in Item 3. Legal Proceedings in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, except as described in note 10 to our financial statements in this Report.

Item 1A. Risk Factors

Our business and operating results are subject to many risks, uncertainties and other factors. If any of these risks were to occur, our business, affairs, assets, financial condition, results of operations, cash flows and prospects could be materially and adversely affected. These risks, uncertainties and other factors include the information discussed elsewhere in this report as well as the risk factors set forth in Item 1A. Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, which have not materially changed as of the date of this report, except that the following risk Factors amend and supercede the corresponding risk factors in that previous report:

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

On May 22, 2014, a putative securities class action lawsuit was filed against us and certain of our executive officers in the United States District Court for the Eastern District of North Carolina. Subsequently, in May and in July 2014, two additional purported securities class action lawsuits were filed against the same defendants in the United States District Courts, one in the Eastern District of North Carolina and the other in the Western District of North Carolina. On October 10, 2014, these lawsuits were consolidated in the United States District Court for the Eastern District of North Carolina, and a lead plaintiff was appointed. As consolidated, the lawsuit was filed on behalf of all persons or entities that purchased our common stock during a purported class period from August 8, 2013 through May 7, 2014, which is the longer of the two different purported class periods used in the pre-consolidation lawsuits. A consolidated amended complaint was filed on December 29, 2014. The action alleges that certain statements made by the defendants during the class period violated federal securities laws and seeks damages in an unspecified amount. We filed a motion to dismiss the amended complaint on February 26, 2015, which the court granted on September 15, 2015, with leave for the plaintiff to file an amended complaint. On October 16, 2015, the plaintiff filed a second amended consolidated class action complaint, with similar allegations over the same class period. We intend to file a motion to dismiss the second amended complaint. We cannot provide any assurance as to when the court will rule on our motion to dismiss or whether our motion will be granted.

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

ordered that proceedings under the complaint be stayed until resolution of the class action litigation.

While we believe that we have substantial legal and factual defenses to the claims in the class action and we are pursuing these defenses vigorously, the outcome of this litigation is difficult to predict and quantify and the defense against such claims could be costly. In addition, we have various insurance policies related to the risks associated with our business, including directors and officers liability insurance policies. However, there is no assurance that we will be successful in our defense of the pending securities class action, and there is no assurance that our insurance coverage will be sufficient or that our insurance carriers will cover all claims in that litigation. If

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we are not successful in our defense of the claims asserted in the securities class action and those claims are not covered by insurance or exceed our insurance coverage, we may have to pay damage awards, indemnify our officers and directors from damage awards that may be entered against them and pay the costs and expenses incurred in defense of, or in any settlement of, such claims.

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

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

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

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

In July 2014, through PowerSecure Solar, we entered into two engineering, procurement and construction contracts with a utility customer, pursuant to which we will act as the general contractor in connection with the installation of two solar power distributed energy systems with a total project value of $120 million. In July 2015, we entered into a third contract with the utility, which had an original project value of $85 million but may be modified and reduced to $60 million or less, or terminated entirely, at the request of the utility customer. Because of the size, scope, and strict project timelines, we have taken on significant responsibility and risks related to project completion.

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

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

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In addition, the solar projects covered by these contracts are subject to bonding and surety requirements. In connection with these requirements, we have obtained bonding and surety arrangements in the amount of approximately $120 million to support our performance obligations under the contracts to our utility customer. The solar panel manufacturer has provided a supply bond to us in the amount of approximately $72.6 million that backstops the on-time delivery of solar panels.

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

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

We have been recently notified by the Utility that the size and scope of our third solar project may be reduced, due to a change in the utility customer s requirements. Accordingly, we, along with the utility, are evaluating the impact of potential and evolving modifications to the size and scope of this third solar project, to determine the financial impact on us and the viability of the project due to such modifications. This evaluation may result in either a mutually acceptable reduction in the size and scope of the solar project or the mutual termination of the entire solar project. As of the date of this report, the third contract has not been amended, restated or terminated, and the underlying solar project has not been modified or terminated. Based on the current information we have received on the size and scope of the potential reduction in this solar project by the Utility customer, we currently estimate that the revenues generated from this third solar project will be reduced to a range between $60-70 million from the original $85 million project size, although the solar project contract may be terminated entirely. We cannot provide any assurance that the revenues from any modification of this project will meet our current expectation or that the contract will not be terminated in its entirety and result in no revenues or profits to us.

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

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

A significant portion of our revenue backlog is comprised of master contracts, product contracts and orders that are subject to cancellation without penalty or are otherwise subject to delay, deferral or reduction from time

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to time. For example, the backlog contained in this report includes $60 million relating to a July 2015 solar project that previously was $85 million in size, based on our current best estimate of a modification of the project by the utility customer, but that amount of backlog is subject to further reduction if the size of that solar project contract is reduced below our current expectations or terminated in its entirety. In addition, the determination of our backlog involves the use of estimates of the revenue that will be realized from certain customers we are serving under master contract relationships.

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

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 6. Exhibits

(10.1)	Engineering, Procurement and Construction Agreement, dated as of July 9, 2015, between PowerSecure Solar, LLC and Georgia Power Company. (Filed herewith.)*
(10.2)	Fifth Amendment to Amended and Restated Credit Agreement, dated as of October 1, 2015, among PowerSecure International, Inc., as borrower, Citibank, N.A., as administrative agent and lender, and Branch Banking and Trust Company, as lender. (Incorporated by reference to Exhibit 10.1 to Registrant s Current Report on Form 8-K, filed October 7, 2015.)
(10.3)	Sixth Amendment to Amended and Restated Credit Agreement, dated as of November 3, 2015, among PowerSecure International, Inc., as borrower, Citibank, N.A., as administrative agent and lender, and Branch Banking and Trust Company, as lender. (Incorporated by reference to Exhibit 10.5 to Registrant s Current Report on Form 8-K, filed November 3, 2015.)
(31.1)	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (Filed herewith.)
(31.2)	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (Filed herewith.)

(32.1)	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (Filed herewith.)
(32.2)	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (Filed herewith.)
(101.INS)	XBRL Instance Document

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(101.SCH)	XBRL Taxonomy Extension Schema Document
(101.CAL)	XBRL Taxonomy Extension Calculation Linkbase Document
(101.DEF)	XBRL Taxonomy Extension Definition Linkbase Document
(101.LAB)	XBRL Taxonomy Extension Label Linkbase Document
(101.PRE)	XBRL Taxonomy Extension Presentation Linkbase Document

* Portions of this exhibit have been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

POWERSECURE INTERNATIONAL, INC.

Date: November 4, 2015

By: /s/ Sidney Hinton
Sidney Hinton
President and Chief Executive Officer

Date: November 4, 2015

By: /s/ Eric Dupont
Eric Dupont
Executive Vice President and Chief Financial Officer