POWERSECURE INTERNATIONAL, INC.
Form 10-Q
November 07, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012

or

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

For the transition period from to

Commission File Number 1-12014

POWERSECURE INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

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

(919) 556-3056

(Registrant s telephone number, including area code)

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

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

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

As of November 1, 2012, 18,308,652 shares of the issuer s Common Stock were outstanding.

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POWERSECURE INTERNATIONAL, INC.

FORM 10-Q

For the Quarterly Period Ended September 30, 2012

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PART I.

FINANCIAL INFORMATION

Item 1. Financial Statements

POWERSECURE INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (unaudited)

(in thousands, except share data)

	September 30, 2012	December 31, 2011
Assets		
Current Assets:		
Cash and cash equivalents	$ 22,550	$ 24,606
Trade receivables, net of allowance for doubtful accounts of $136 and $174, respectively	46,583	46,163
Assets of discontinued operations held for sale		380
Inventories	21,294	20,290
Income taxes receivable	17	439
Current deferred income taxes	650	650
Prepaid expenses and other current assets	846	1,128
Total current assets	91,940	93,656
Property, plant and equipment:		
Equipment	42,588	38,441
Furniture and fixtures	348	283
Land, building and improvements	5,901	5,885
Total property, plant and equipment, at cost	48,837	44,609
Less accumulated depreciation and amortization	11,084	8,281
Property, plant and equipment, net	37,753	36,328
Other assets:		
Goodwill	12,884	7,970
Deferred income taxes, net of current portion	266	266
Restricted annuity contract	2,429	2,376
Intangible rights and capitalized software costs, net of accumulated amortization of $3,580 and $3,070, respectively	1,434	1,642
Investment in unconsolidated affiliate		6
Other assets	652	331
Total other assets	17,665	12,591
Total Assets	$ 147,358	$ 142,575

See accompanying notes to consolidated financial statements.

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POWERSECURE INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (unaudited)

(in thousands, except share data)

	September 30, 2012	December 31, 2011
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 9,695	$ 6,894
Accrued and other liabilities	16,044	16,129
Accrued restructuring and cost reduction liabilities	1,318	
Liabilities of discontinued operations held for sale		125
Current unrecognized tax benefit	242	287
Current portion of term loan	160	
Current portion of capital lease obligations	874	840
Total current liabilities	28,333	24,275
Long-term liabilities:		
Revolving line of credit		
Term loan, net of current portion	2,120	
Capital lease obligations, net of current portion	2,147	2,807
Unrecognized tax benefit	640	731
Other long-term liabilities	2,464	2,300
Total long-term liabilities	7,371	5,838
Commitments and contingencies (Notes 5, 9 and 11)		
Stockholders Equity:		
PowerSecure International stockholders equity:		
Preferred stock undesignated, $.01 par value; 2,000,000 shares authorized; none issued and outstanding		
Preferred stock Series C, $.01 par value; 500,000 shares authorized; none issued and outstanding		
Common stock, $.01 par value; 50,000,000 and 25,000,000 shares authorized, respectively; 18,475,883 and 18,908,412 shares issued and outstanding, respectively	185	189
Additional paid-in-capital	114,801	116,803
Accumulated deficit	(3,917)	(5,439)
Total PowerSecure International, Inc. stockholders equity	111,069	111,553
Non-controlling interest	585	909
Total stockholders equity	111,654	112,462
Total Liabilities and Stockholders Equity	$ 147,358	$ 142,575

See accompanying notes to consolidated financial statements.

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POWERSECURE INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

(in thousands, except per share data)

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Revenues	$ 44,236	$ 36,585	$ 115,288	$ 90,326
Cost of sales	30,360	25,372	79,653	62,078
Gross profit	13,876	11,213	35,635	28,248
Operating expenses:				
General and administrative	9,012	8,714	26,750	24,347
Selling, marketing and service	1,615	1,197	4,039	3,565
Depreciation and amortization	1,211	857	3,432	2,432
Restructuring and cost reduction charges	1,548		1,548	
Total operating expenses	13,386	10,768	35,769	30,344
Operating income (loss)	490	445	(134)	(2,096)
Other income and (expenses):				
Gain on sale of unconsolidated affiliate		44	1,439	21,830
Equity income from unconsolidated affiliate				1,559
Management fees				282
Interest income and other income	22	31	67	73
Interest expense	(114)	(168)	(338)	(454)
Income before income taxes	398	352	1,034	21,194
Income tax benefit (provision)	(119)	453	(347)	(2,777)
Income from continuing operations	279	805	687	18,417
Discontinued operations (Note 5):				
Income (loss) from operations, net of tax	11	(63)	78	(1,666)
Gain on disposal, net of tax				5,636
Income (loss) from discontinued operations, net of tax	11	(63)	78	3,970
Net income	290	742	765	22,387
Net loss attributable to non-controlling interest	192	230	757	573
Net income attributable to PowerSecure International, Inc.	$ 482	$ 972	$ 1,522	$ 22,960
Amounts attributable to PowerSecure International, Inc. common stockholders:				
Income from continuing operations, net of tax	$ 471	$ 1,035	$ 1,444	$ 18,990
Income (loss) from discontinued operations, net of tax	11	(63)	78	3,970
Net income	$ 482	$ 972	$ 1,522	$ 22,960

Basic earnings per share attributable to PowerSecure International, Inc. common stockholders:				
Income from continuing operations	$ 0.03	$ 0.05	$ 0.08	$ 1.01
Income (loss) from discontinued operations				0.21
Net income attributable to PowerSecure International, Inc. common stockholders	$ 0.03	$ 0.05	$ 0.08	$ 1.22
Diluted earnings per share attributable to PowerSecure International, Inc. common stockholders:				
Income from continuing operations	$ 0.03	$ 0.05	$ 0.08	$ 0.99
Income (loss) from discontinued operations				0.21
Net income attributable to PowerSecure International, Inc. common stockholders	$ 0.03	$ 0.05	$ 0.08	$ 1.20

See accompanying notes to consolidated financial statements.

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POWERSECURE INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(in thousands)

	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Cash flows from operating activities:		
Net income	$ 765	$ 22,387
Adjustments to reconcile net income to net cash used in operating activities:		
Gain on sale of unconsolidated affiliate	(1,439)	(21,830)
Income from discontinued operations	(78)	(3,970)
Depreciation and amortization	3,432	2,432
Stock compensation expense	755	1,376
Loss on disposal of miscellaneous assets	68	36
Equity in income of unconsolidated affiliate		(1,559)
Distributions from unconsolidated affiliate		1,537
Changes in operating assets and liabilities, net of effect of acquisition:		
Trade receivables, net	900	(18,032)
Inventories	(903)	570
Deferred income taxes		1,154
Other current assets and liabilities	659	(248)
Other noncurrent assets and liabilities	(302)	1,163
Accounts payable	2,125	111
Accrued and other liabilities	(1,884)	5,537
Accrued restructuring and cost reduction liabilities	1,318	
Net cash provided by (used in) continuing operations	5,416	(9,336)
Net cash provided by (used in) discontinued operations	334	(1,215)
Net cash provided by (used in) operating activities	5,750	(10,551)
Cash flows from investing activities:		
Acquisition	(3,523)	
Purchases of property, plant and equipment	(4,367)	(13,740)
Additions to intangible rights and software development	(267)	(365)
Proceeds from sale of property, plant and equipment	15	12
Proceeds from sale of unconsolidated affiliate	1,445	25,974
Proceeds from sale of discontinued operations		16,515
Discontinued operations investing activities		(3)
Net cash provided by (used in) investing activities	(6,697)	28,393
Cash flows from financing activities:		
Borrowings (payments) on revolving line of credit		5,000
Proceeds from term loan borrowings	2,400	
Proceeds from sale leaseback transactions		2,097
Payments on term loan	(120)	
Payments on capital lease obligations	(626)	(593)
Repurchases of common stock	(2,786)	(166)
Proceeds from stock option exercises	23	310

Net cash provided by (used in) financing activities	(1,109)	6,648
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,056)	24,490
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	24,606	8,202
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 22,550	$ 32,692

See accompanying notes to consolidated financial statements.

POWERSECURE INTERNATIONAL, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

As of September 30, 2012 and December 31, 2011 and

For the Three and Nine Month Periods Ended September 30, 2012 and 2011

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

1. Description of Business and Basis of Presentation

Description of Business

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

Our Utility and Energy Technologies segment includes our core business operations. It is the only segment that we have been strategically focused on investing in and growing for the last several years. Conversely, our Energy Services segment contains our non-core business operations. We divested the operations of our Energy Services segment over the last several years, with the final divestitures completed in 2011.

Our Utility and Energy Technologies segment includes our three primary product and service offerings: our Interactive Distributed Generation products and services, our Utility Infrastructure products and services, and our Energy Efficiency products. These three groups of products and services are commonly focused on serving the needs of utilities and their commercial, institutional and industrial customers to help them generate, deliver, and utilize electricity more efficiently. Our strategy is focused on growing these three product and service areas because they require unique knowledge and skills that utilize our core competencies, and because they address large market opportunities due to their strong customer value propositions. These three product and service areas share common or complementary utility relationships and customer types, common sales and overhead resources, and facilities. However, we discuss and distinguish our Utility and Energy Technologies business among the three product and service areas due to the unique market needs they are addressing, and the distinct technical disciplines and specific capabilities required for us to deliver them, including personnel, technology, engineering, and intellectual capital. Our Utility and Energy Technologies segment operates primarily out of our Wake Forest, North Carolina headquarters office, and its operations also include several satellite offices and manufacturing facilities, the largest of which are in the Raleigh, North Carolina, Randleman, North Carolina, McDonough, Georgia, and Anderson, South Carolina areas. The locations of our sales organization and field employees for this segment are generally in close proximity to the utilities and commercial, industrial, and institutional customers they serve. Our Utility and Energy Technologies segment is operated through our largest wholly-owned subsidiary, PowerSecure, Inc.

Until the divestitures of the last of our non-core business operations in 2011, our Energy Services segment operated through our two other principal operating subsidiaries, Southern Flow Companies, Inc., which we refer to as Southern Flow , and WaterSecure Holdings, Inc., which we refer to as WaterSecure . WaterSecure held a significant non-controlling minority portion of the equity interests in an unconsolidated business, Marcum Midstream 1995-2 Business Trust, a Delaware statutory trust, which we refer to as MM 1995-2 or as our WaterSecure operations . Our WaterSecure operations provided water processing, recycling, and disposal services for oil and natural gas producers in northeastern Colorado utilizing environmentally responsible technologies and processes. In June 2011, substantially all of the assets and business of MM 1995-2 were sold and the proceeds from the sale and the liquidation of its remaining assets were distributed to MM 1995-2 s shareholders, including our WaterSecure subsidiary, in 2011 and 2012. Accordingly, our WaterSecure subsidiary no longer has any on-going operating activity. Our Southern Flow business, which was sold in January 2011, provided oil and natural gas measurement services to customers involved in oil and natural gas production, transportation, and processing, with a focus on the natural gas market. Due to its sale, Southern Flow s operations are reflected as discontinued operations in the accompanying consolidated financial statements. The sales of our WaterSecure and Southern Flow operations completed our strategy to monetize our non-core assets to focus on the businesses in our Utility and Energy Technologies business segment. As a result of these sales, our Energy Services segment ceased on-going business activities in June 2011.

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See Note 14 for more information concerning our reportable segments.

Basis of Presentation

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

These consolidated financial statements have been prepared pursuant to rules and regulations of the Securities and Exchange Commission. The accompanying consolidated financial statements and notes thereto should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2011.

In management s opinion, all adjustments (all of which are normal and recurring) have been made which are necessary for a fair presentation of the consolidated financial position of us and our subsidiaries as of September 30, 2012 and the consolidated results of our operations and cash flows for the three and nine months ended September 30, 2012 and September 30, 2011.

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

Non-controlling Interest On June 5, 2012, we acquired a 90% controlling ownership interest in PowerSecure Solar, a distributed solar energy company (see Note 4). On April 1, 2010, we acquired a 67% controlling ownership interest in IES, an LED lighting company. Both PowerSecure Solar and IES are included in our consolidated financial statements. The non-controlling ownership interests in the income or losses of PowerSecure Solar and IES are included in our consolidated statements of operations as a reduction or addition to net income to derive income attributable to PowerSecure International stockholders. Similarly, the non-controlling ownership interest in the undistributed equity of PowerSecure Solar and IES are shown as a separate component of stockholders equity in our consolidated balance sheets.

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The following is a reconciliation of the amounts attributable to the non-controlling interest in IES and PowerSecure Solar for the nine months ended September 30, 2012 and 2011:

	Nine Months Ended September 30, 2012		
	IES	PowerSecure Solar	Total
Balance, December 31, 2011	$ 909	$	$ 909
Capital contribution		433	433
Income (loss)	(803)	46	(757)
Balance, September 30, 2012	$ 106	$ 479	$ 585

	Nine Months Ended September 30, 2011		
	IES	PowerSecure Solar	Total
Balance, December 31, 2010	$ 1,755	$	$ 1,755
Capital contribution			
Income (loss)	(573)		(573)
Balance, September 30, 2011	$ 1,182	$	$ 1,182

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

Reclassifications The assets, liabilities and operations of our discontinued PowerPackages business have been reclassified to discontinued operations for all periods presented in the accompanying consolidated financial statements. In addition, certain 2011 amounts have been reclassified to conform to current year presentation. Such reclassifications had no effect on net income or stockholders equity.

2. Summary of Significant Accounting Policies and Recent Accounting Standards

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

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

In applying the percentage-of-completion method to our utility infrastructure turn-key projects, revenues and gross profit are recognized as work is performed based on the relationship between actual costs incurred and total estimated costs at completion.

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

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

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

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

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

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

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

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

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

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

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

Warranty Reserve We provide a standard warranty for our distributed generation equipment, switchgear equipment, utility infrastructure equipment, and our LED products, which generally range between one and five years. In addition, we offer extended warranty terms on certain distributed generation turn-key and switchgear projects. We reserve for the estimated cost of product warranties when revenue is recognized, and we evaluate our reserve periodically by comparing our warranty repair experience by product. The purchase price for extended warranties or extended warranties included in the contract terms are deferred as a component of our warranty reserve. The balance of our warranty reserve included in accrued and other liabilities at September 30, 2012 and December 31, 2011 was $1.5 million and $1.1 million, respectively.

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

Pre-tax share-based compensation expense for our stock options and restricted stock awards recognized during the three months ended September 30, 2012 and 2011 was $179 thousand and $450 thousand, respectively. Pre-tax share-based compensation expense for our stock options and restricted stock awards recognized during the nine months ended September 30, 2012 and 2011 was $755 thousand and $1,376 thousand, respectively. All share-based compensation expense is included in general and administrative expense in the accompanying consolidated statements of operations.

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

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

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

Recent Accounting Pronouncements

Fair Value Measurements In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-04, which amended Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. This amendment is intended to result in convergence between U.S. GAAP and International Financial Reporting Standards (IFRS) requirements for measurement of and disclosures about fair value. This amended guidance clarifies the concepts applicable for fair value measurement of non-financial assets and also expands the disclosures for fair value measurements that are estimated using significant unobservable inputs used in a fair value measurement. This amended guidance became effective for us on a prospective basis commencing January 1, 2012. The adoption of this standard had no effect on our financial position or results of operations.

Testing Goodwill for Impairment In September 2011, the FASB issued ASU No. 2011-08, Intangibles-Goodwill and Other (Topic 350) Testing Goodwill for Impairment. This standard, which amends and updates guidance on the periodic testing of goodwill for impairment, provides companies with the option to first assess qualitative factors to determine whether it is more likely than not that that the fair value of a reporting unit is less than its carrying amount. If so, then it is necessary to perform the two-step quantitative goodwill impairment test. This standard becomes effective for fiscal years beginning after December 15, 2011, with early adoption allowed. We adopted this standard effective October 1, 2011. The adoption of this standard had no effect on our financial position or results of operations.

Testing Indefinite-Lived Intangible Assets for Impairment In July 2012, the FASB issued ASU No. 2012-02, Intangibles Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment. This standard, which amends the guidance on testing indefinite-lived intangible assets, other than goodwill, for impairment, provides companies with the option to first perform a qualitative assessment before performing the two-step quantitative impairment test. If the company determines, on the basis of qualitative factors, that the fair value of the indefinite-lived intangible asset is more likely than not to exceed its carrying amount, then the company would not need to perform the two-step quantitative impairment test. This standard does not revise the requirement to test indefinite-lived intangible assets annually for impairment. This standard becomes effective for annual and interim impairment tests performance for fiscal years beginning after September 15, 2012, with early adoption allowed. We do not expect the adoption of this standard will have a material effect on our financial position or results of operations.

3. Earnings (Loss) per Share

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Income from continuing operations	$ 471	$ 1,035	$ 1,444	$ 18,990
Income (loss) from discontinued operations	11	(63)	78	3,970
Net income	$ 482	$ 972	$ 1,522	$ 22,960
Basic weighted-average common shares outstanding in period	18,676	18,966	18,807	