POWERSECURE INTERNATIONAL, INC.
Form 10-K
March 14, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2015

OR

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

For the transition period from to

Commission file number: 001-12014

POWERSECURE INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Delaware	84-1169358
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1609 Heritage Commerce Court

Wake Forest, North Carolina 27587

(Address of principal executive offices, including zip code)

Registrant s telephone number, including area code: (919) 556-3056

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $.01 per share	The New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes ¨ No x

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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 Exchange Act). Yes ¨ No x

As of June 30, 2015, the last business day of the registrant s most recently completed second fiscal quarter, the aggregate market value of the shares of the registrant s Common Stock held by non-affiliates of the registrant was approximately $317,725,635, based upon the last sale price of the Common Stock on such date as reported on the New York Stock Exchange.

As of March 11, 2016, 22,508,173 shares of the registrant s Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive Proxy Statement for the 2016 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission not later than 120 days after the end of the registrant s fiscal year ended December 31, 2015, are incorporated by reference in Part III of this Annual Report on Form 10-K to the extent stated herein.

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POWERSECURE INTERNATIONAL, INC.

Form 10-K

For the Fiscal Year Ended December 31, 2015

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K and the documents incorporated into this report by reference contain, and we may from time to time make, forward-looking statements within the meaning of and made under the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. 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, targets, 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 , estimate , forecast , expect , plan , potential , opportunity , posi target and future , variations of such words, and other comparable terminology and similar expressions and references to future periods 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:

certain risks and uncertainties associated with the proposed merger with The Southern Company, including, without limitation:

- the possibility that the proposed merger does not close due to the failure to satisfy the closing conditions, including, but not limited to, a failure of our shareholders to approve the Merger Agreement or a failure to obtain the required regulatory approval;
- delays caused by required regulatory approval, which may delay the proposed merger or cause the companies to abandon the transaction;
- disruption from the proposed merger making it more difficult to maintain our business and operational relationships as well as maintaining our relationships with employees, suppliers or customers, and the risk that unexpected costs will be incurred during this process; and
- the diversion of management time on merger-related issues;

prospects, including our future business, revenues, expenses, net income, earnings per share, margins, profitability, cash flow, cash position, liquidity, financial condition and results of operations, backlog of orders and revenue, our expectations for the growth of our business, our goals for future revenues and earnings, 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 and anticipated economic and market conditions and the effects on our customers, their capital budgets and spending and their ability to finance purchases of our products, services, technologies and systems;

the effects of fluctuations in sales on our business, revenues, expenses, net income, earnings per share, margins, profitability, cash flow, capital expenditures, 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, expand and diversify our business and operations;

our business plans, strategies, goals and objectives, and our ability to successfully achieve them;

fluctuations in the gross margins of our businesses;

the impact of large projects or customer awards on our business and financial results, such as the utility-scale solar projects;

the effects on our business operations, financial results and prospects of business acquisitions, combinations, sales, alliances, ventures and other similar business transactions and relationships;

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- the sufficiency of our capital resources and sources of funding, including our cash and cash equivalents, funds generated from operations, the availability of borrowings under our credit and financing arrangements, the availability of bonding and other capital resources, to meet our future working capital, capital expenditure, lease and debt service and business growth needs;

- the value of our assets and businesses, including the revenues, profits and cash flow they are capable of delivering in the future;

- industry trends and customer preferences and the demand for our products, services, technologies and systems;

- the nature and intensity of our competition, and our ability to successfully compete in our markets;

- fluctuations in our effective tax rate; and

- the effects on and potential exposure to our business, financial condition and results of operations from litigation, warranty claims and other claims and proceedings that arise from time to time, including the pending securities class action and those that could arise as a result of the proposed merger with Southern Company.

Any forward-looking statements we make are based on our current plans, intentions, objectives, goals, targets, 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 Item 1A. Risk Factors 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.

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PART I

Item 1. Business

Company Overview

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

We provide our products and services through four reporting segments: Distributed Generation, Solar Energy, Utility Infrastructure, and Energy Efficiency. These four segments constitute our major product and service offerings, each of which is focused on serving the needs of utilities and their large commercial, institutional and industrial customers to help them generate, deliver, and utilize electricity more reliably and efficiently.

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

We currently operate primarily out of our Wake Forest, North Carolina headquarters office. Our operations also include several satellite offices and manufacturing facilities, the largest of which are in the Raleigh-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 four segments are operated through our principal operating wholly-owned subsidiary, PowerSecure, Inc.

On February 24, 2016, we entered into an Agreement and Plan of Merger, which we refer to as the Merger Agreement , with The Southern Company, Inc., which we refer to as Southern Company , which is described below in this item under Recent Developments and in Note 2 to our consolidated financial statements.

We were incorporated in Delaware on April 5, 1991. On August 22, 2007, we changed our name to PowerSecure International, Inc. Our principal executive offices are located at 1609 Heritage Commerce Court, Wake Forest, North Carolina 27587, and our telephone number at those offices is (919) 556-3056.

Since August 28, 2013, our common stock has been listed and traded on the New York Stock Exchange under the symbol POWR.

In this report, references to PowerSecure , our company , we , us and our mean PowerSecure International, Inc. to with its subsidiaries, and references to PowerSecure, Inc. mean our wholly-owned subsidiary PowerSecure, Inc. along with its subsidiaries, unless we state otherwise or the context indicates otherwise.

PowerSecure, Interactive Distributed Generation, IDG, NexGear, PowerBlock, PowerControl, PowerFab, UtilityServices, UtilityEngineering, PowerServices, PowerSecure Lighting, EfficientLights, Solais, EnergyLite, Encari and our other registered or common law trademarks, service marks and trade names appearing in this report are our

property. Any other trademarks, service marks or trade names appearing in this report are the property of their respective owners.

Recent Developments

Agreement and Plan of Merger

On February 24, 2016, we entered into the Merger Agreement with Southern Company and a wholly-owned subsidiary of Southern Company, which we refer to as the Merger Sub, providing for the merger of the Merger Sub with and into PowerSecure, with PowerSecure continuing as the surviving corporation in the Merger and becoming a wholly-owned subsidiary of Southern upon consummation of the Merger. At the effective time of the merger, subject to receipt of required shareholder and regulatory approvals, and meeting specified customary closing

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conditions, each share of our common stock will be converted automatically into the right to receive into the right to receive $18.75 in cash, without interest, less any applicable withholding taxes. In the Merger Agreement, we agreed to covenants affecting the conduct of our business between the date of the Merger Agreement and the effective date of the Acquisition. For additional information relating to this merger, see Cautionary Note Regarding Forward-Looking Statements , Item 1A. Risk Factors Risks Relating to the Merger , and Note 2 to our consolidated financial statements in this report.

Our Board of Directors has unanimously (i) adopted the Merger Agreement and determined that the Merger and the other transactions contemplated by the Merger Agreement are advisable and in the best interests of our stockholders, (ii) approved the execution, delivery and performance of the Merger Agreement by PowerSecure and the consummation of the Merger and the other transactions contemplated by the Merger Agreement, and (iii) resolved to recommend that our stockholders approve the Merger Agreement and the Merger and other transactions contemplated by the Merger Agreement.

At the effective time of the Merger, each share of our common stock issued and outstanding immediately prior to the effective time, other than certain excluded shares, will be converted automatically into the right to receive $18.75 in cash, without interest, which we refer to as the Merger Consideration.

The Merger Agreement also provides that, at the effective time, all of our outstanding stock options will be deemed to be fully vested and converted into the right to receive a cash payment equal to the excess of the Merger Consideration over the exercise prices of such stock options. All of our outstanding restricted shares and restricted stock units will be deemed to be fully vested and converted into the right to receive the Merger Consideration, except for certain unvested restricted shares held by our Chief Executive Officer, which will be converted into a stock award relating to shares of Southern as further described below. All of our performance share units payable in shares of our common stock will be deemed vested at the target level of achievement and converted into the right to receive the Merger Consideration.

Consummation of the Merger is subject to various closing conditions, including, among others (i) the approval of the Merger Agreement by the affirmative vote of the holders of a majority of all outstanding shares of our common stock, (ii) the receipt of all regulatory approvals required to consummate the Merger, including expiration or termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, (iii) the absence of any law or injunction prohibiting the consummation of the Merger, and (iv) other customary closing conditions, including (a) the accuracy of each party s representations and warranties (subject to customary materiality qualifiers), (b) each party s performance in all material respects with its obligations under the Merger Agreement, and (c) no material adverse effect (as defined in the Merger Agreement) on us having occurred. The Merger is not subject to any financing condition.

The Merger Agreement contains customary representations, warranties and covenants by us and Southern, including, among others, covenants by us not to solicit proposals relating to alternative business combinations or, subject to certain exceptions, enter into discussions concerning or provide information in connection with alternative business combination proposals or withdraw or adversely modify the recommendation of our Board in favor of the stockholder approval. In addition, the Merger Agreement contains (i) agreements by us to conduct our business in the ordinary course until the Merger is consummated, to not engage in certain kinds of transactions, to convene and hold a meeting of our stockholders for the purpose of obtaining stockholder approval of the Merger and the Merger Agreement and (ii) agreements by each of the parties to use their reasonable best efforts to obtain all required regulatory approvals.

The Merger Agreement contains certain termination rights, including the right by us to terminate the Merger Agreement if our Board has changed its recommendation in favor of the Merger in connection with a Superior Proposal or Intervening Event as such terms are defined in the Merger Agreement. The Merger Agreement also provides that, upon termination of the Merger Agreement in specified circumstances, we will be required to pay Southern a termination fee of $12,000,000. In addition, subject to certain exceptions and limitations, either party may terminate the Merger Agreement if the Merger is not consummated by November 30, 2016.

On February 23, 2016, the lenders under our credit facility provided a waiver of any event of default arising from the execution of the Merger Agreement (but not the consummation of the Merger) under credit agreement with our lenders.

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Other Recent Developments

On February 8, 2016, we entered into a five year management services agreement, which we refer to as the MSA, with Bahamas Power and Light Company, which we refer to as BPL, a wholly owned subsidiary of Bahamas Electricity Corporation, the government owned electric utility for The Bahamas (excluding Grand Bahama), to assist BPL to conduct its operations as the electric utility for The Bahamas, manage the Bahamas electric infrastructure, and enhance its overall electric generation system and supply. The MSA includes a business plan which outlines cost-reduction and reliability targets along with renewable energy and customer service initiatives.

On December 2, 2015, we announced that we acquired the energy services business of ESCO Energy Services Company, a Massachusetts corporation, a private company based in Lenox, Massachusetts that provides lighting retrofit solutions which deliver energy savings for large energy services companies and commercial and industrial, institutional, utility and municipal customers across the United States, although predominately in the Northeast. The acquired business provides a broad range of turn-key energy efficiency services including energy audits, engineering and design, materials procurement, project management, implementation and verification. We paid approximately $1.8 million in total consideration, including cash and promissory notes. In addition, we will make earn-out payments through 2018 for contracted sales by the acquired business that exceed certain contracted sales targets intended to reflect meaningful growth.

On November 3, 2015, we entered into an amendment to the amended and restated credit agreement that provides for our credit facility, which consists of both a revolving loan and certain term debt. The amendment increased the size of the revolving loan to $40 million from $20 million, the amount of the availability of which continues to be subject to our compliance with our financial covenants as amended, and also extended the maturity date of the entire credit facility to June 30, 2020 from November 12, 2016, including the maturity of the revolving loan and the $2.6 million original principal amount term loan. In addition, the amendment to the credit agreement added an accordion provision permitting us to request an increase in the revolving loan by up to an additional $20 million, subject to lender participation, and amended one of our financial covenants, reducing the maximum debt to capitalization ratio at the end of any fiscal quarter to 0.25 from 0.30.

The Industry and our Business Areas of Focus

The electricity industry is comprised of investor-owned utilities, or IOUs, municipal utilities and co-operative electric utilities, along with independent power producers and independent transmission companies. These utilities and other companies are primarily responsible for the generation, transmission and distribution of electricity in the United States. The electric transmission and distribution infrastructure is the critical network that connects power generation by these utilities and other producers to end users, including commercial and industrial customers. Electric transmission involves the transmission of electricity through power lines and substations, including high voltage lines transmitting electricity over long distances, and lower voltage lines that connect high voltage transmission infrastructure to local distribution networks. Electric distribution involves the local distribution network, including related substations that step down voltages to distribution levels, which provide electricity to end users over shorter distances.

The U.S. electricity industry is large and has expanded over the last two decades. According to the U.S. Energy Information Administration, referred to as the EIA, the U.S. electricity market totaled approximately $388 billion in revenue in 2015 with approximately 3,725 billion kilowatt hours purchased by the ultimate customers. Throughout this period, electric utilities have been challenged by an evolving and uncertain regulatory process, the increased burden of environmental constraints, planned reductions in coal plant capacity, the increase in demand for renewable sources of energy, the significant reduction in natural gas prices, and long lead times to complete major capital

investments. As a result, utilities are challenged to efficiently meet demand by traditional means, both in the areas of large scale power production and in power transmission and distribution. This, in addition to ongoing disruptions from severe weather events, has also challenged reliability and increased the strain on the electric power grid.

This strain is particularly pronounced during peak power periods, when the demand for electricity is at its highest. The rising demand for energy, growing complexity of energy resources and the electric grid, and increasing concerns about the environment, have combined to cause virtually every organization, public and private, including utilities and their end customers, to be focused on energy efficiency, reliability and productivity. According to the EIA, approximately 60% of U.S. electricity demand is driven by commercial and industrial electricity usage, which is the focus of our business.

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These factors have resulted in a significant need in the marketplace for our products and services. Our strategy is to serve utilities and their large commercial, institutional and industrial customers by providing products and services in these areas that have strong value propositions. Our business leaders and their teams have strong utility and customer relationships and a deep understanding of the markets we serve, and they are incentivized to grow these businesses profitably and on a sustained basis. We encourage our business leaders to embrace a philosophy of service and disciplined innovation as a means to anticipate and fill customer needs. Our entrepreneurial culture is an asset that is fundamental to our growth and success. We are continually listening to our utility partners, and to our existing and potential commercial, industrial and institutional customers, to identify energy-related products and services we can deliver to add value to their businesses. We seek to fill these customer needs in several ways, including by:

- offering our existing portfolio of products and services that have demonstrated their value in similar or complementary situations, usually customizing them for each particular application;

- offering new energy-related technologies and capabilities that are emerging or being developed by third parties, which we can either incorporate into our existing product lines or bring to market as new product offerings; and

- developing new technologies and capabilities internally to serve existing and potential customers when options do not exist in the marketplace that meet our quality, effectiveness, cost and financial return standards.

Over the near and mid-term, our strategic focus is to continue to grow our businesses and to expand and enhance our product and service offerings in all of our segments.

Our Growth Strategy

From 2000 through 2015, our revenues from our PowerSecure business grew at a compound annual growth rate of 31.8%. We believe that there is a substantial opportunity for continued growth in the future in our business operations because we are delivering differentiated products and services to a variety of underpenetrated and growing markets. Our growth strategy is to expand our solutions across existing and new utility partners and customers by focusing on the following:

Leveraging our Utility and Customer Relationships to Cross-Sell Our Services. Our business is focused on serving utilities and their large commercial and industrial customers, and this enables us to bring multiple solutions to individual utilities and customers. We believe our focus on customer intimacy provides us with an ability to identify opportunities for growth across our product and service offerings.

Being a Strong Partner to Utilities to Assist them in their Efforts and Investment to Maintain and Upgrade the U.S. Electricity Grid. According to a forecast made in October 2015 by the Edison Electric Institute, investor-owned electric utilities were planning to invest approximately $85 billion on electric transmission infrastructure between 2015 and 2018. In December 2014, the Brattle Group projected that the total U.S. transmission investment over the next decade will be $120-$160 billion. We believe that our talented people,

strong set of products and services, excellent track record of quality and reliability, and trusting utility relationships position us to translate this expected investment into growth for our business.

Delivering Innovation to the Marketplace. Across our business segments, we have continued to focus on bringing innovative products and solutions to our customers. For example, we have seen significant growth in the percentage of our Distributed Generation solutions which incorporated our proprietary PowerBlock solution. We also added new solutions and capabilities targeted at data center customers, new safety and training resources and cybersecurity consulting expertise to our Utility Infrastructure solutions, and introduced new LED lighting products and Energy Efficiency Services solutions for large energy services companies, referred to as ESCOs, as well as utility, commercial and retail customers. We believe our engineering expertise, and our focus on customer relationships, provide us with the opportunity to continue our track record of innovation, which will contribute to our potential future growth.

Acquiring Key Technologies and Personnel that Add Value. While the majority of our historic growth has been organic, we also have established a track record of selectively and successfully identifying, acquiring and integrating key technologies and expertise that are consistent with our core business. We look for acquisitions that can add value for our customers and are expected to be accretive to our financial performance.

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Distributed Generation

Overview

Our Distributed Generation solutions involve manufacturing, installing and operating electric generation equipment on site at a facility where the power is used, including commercial, institutional and industrial operations. 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 addition, our Distributed Generation solutions include full turn-key electrical infrastructure design, engineering, construction, implementation and commissioning services to data center owners.

Our Distributed Generation systems contain our proprietary electronic controls and PowerControl software, which enable our systems to be monitored around the clock by our monitoring center, protecting our customers operations from power outages and related costs. Through our monitoring center, we also forecast utilities peak demand periods and we electronically deploy our systems during these periods to power customers operations instead of drawing electricity from the utility grid. Our monitoring center ensures that our Distributed Generation systems deliver power at optimal times and durations for maximum efficiency. This efficient peak demand power capacity benefits both the utility and the customer whose facility is being supported by the system. Our systems also enable utilities to delay new infrastructure investments for transmitting and distributing power, and minimize energy losses associated with moving electricity over long distances.

Market

The market for our Distributed Generation systems is driven by the multiple sources of value they provide. Both utilities and their large customers receive financial and operational benefits from our systems.

For utilities, our systems help them to:

- manage constraints in their electric grid systems, particularly during times of peak demand;
- minimize energy losses associated with moving electricity over long distances;
- manage challenges with respect to bottlenecks that can occur in electric transmission and distribution systems;
- perform localized system maintenance without interrupting large users of electricity in that particular area;
- operate with demand levels that are less volatile, enhancing the efficiency and reliability of their overall system and invested capital; and

reduce carbon emissions compared to traditional sources of spinning power reserves.

For commercial, institutional and industrial customers, our systems help them by:

providing a highly dependable source of backup power to protect their operations from financial losses and other negative consequences of power outages, including utilizing our systems both for preventative measures, such as when a storm is approaching, and for emergency purposes, when utility power is interrupted; and

providing electricity cost savings by utilizing our systems to provide power during periods of high cost peak electricity demand, instead of drawing power from the utility grid, which is referred to as peak shaving.

Because utilities realize operational and financial benefits when customers reduce the amount of power they draw from the electric grid during peak power periods, they often provide incentives in their pricing, or tariff, structures to encourage this activity. These incentives are called demand response benefits and programs. Our systems are engineered to carry the full load required to operate the facilities they support. During peak shaving activities at a customer s facility, our NexGear parallel switchgear technology enables power to be transferred,

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without any interruption, between (1) the grid, (2) our Distributed Generation system, and (3) the customer s facility. Therefore, customers who use our Distributed Generation systems can realize the financial benefits of utility demand response programs without the consequences, costs and inconveniences of having to interrupt or reduce the load of their operations.

Products and Services

We provide turn-key Distributed Generation systems and programs for our customers. The typical Distributed Generation system is installed and maintained at a utility s end customer s location and is designed to supply power only to that one particular site. The size of the Distributed Generation systems that we install most commonly ranges from 500 kW to 15,000 kW, although there is no practical limit to the size of the load we can serve, and we have designed and installed significantly larger systems. Our proprietary Distributed Generation system, which is named PowerBlock, combines standardized size building blocks. These standard building block units are combined, using our switchgear and control technology, to create systems for facilities with higher electric loads. We manufacture our PowerBlocks at our facility near Greensboro, North Carolina. We also utilize generators sourced from major global generator manufacturers as the generators incorporated into our systems.

The primary elements of our turn-key Distributed Generation systems include:

- designing and engineering the Distributed Generation system;
- obtaining the required regulatory approvals and permits;
- establishing the electricity inter-connect between the utility and the customer to take advantage of electricity rate savings;
- manufacturing and packaging the generators for our proprietary PowerBlock systems using engines sourced from a major global engine manufacturer, and in other cases integrating a turn-key generator sourced from one of several major global generator manufacturers, depending on the application;
- for solar photovoltaic systems, engineering, procuring and constructing the solar energy system, including sourcing solar panels from high-quality competitively priced panel manufacturers;
- engineering and integrating the system components and controls;
- designing, engineering, constructing and installing the switchgear and process controls; and
- providing continuous 24 x 7 PowerControl monitoring and servicing of the system.

One key component of a traditional, non-solar distributed generation system is its source of power generation, the generator, which is typically comprised of an alternator driven by a power source. While several types of distributed generation technologies are available, we currently utilize an internal combustion engine to power our Distributed Generation systems to provide maximum reliability as well as quick and efficient startup and shutdown. Typically these engines are fueled by diesel or natural gas, and they can also utilize methane or biodiesel as fuel. The types of generators, engines and alternators utilized in our systems are widely used and provide a highly dependable, cost-effective Distributed Generation technology, meaning that they are able to generate the power that is required with very short start-up times, with good efficiency at a reasonable cost. However, new power producing technologies are emerging, and we are continually evaluating the utilization of new technologies and their ability to be a commercially viable and reliable power source.

Monitoring Center and NexGear Technology

We build technology into our Distributed Generation systems. This technology is embedded into the design and manufacture of our proprietary switchgear and hardware and software controls systems, which are marketed under the name NexGear. Our NexGear technology controls the generator and the transfer of power, quickly shifting power between a customer s primary power source and our Distributed Generation system. We consider our control technology and switchgear designs to be a source of competitive advantage for us due to their quality and their ability to provide power from the generator in parallel with , meaning at the same time as, the customer s primary power source without disrupting the flow of electricity. This capability allows the customer to quickly substitute the power generated at the customer s site with the power supplied by the utility power plant during times of peak demand without business interruption. Our system controls are built to enable remote monitoring and control functions, allowing us to operate the Distributed Generation system 24 x 7 from our PowerControl monitoring center.

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We believe our combination of unique control capabilities is unmatched in the industry. Through our PowerControl monitoring center, we lead the industry in our ability to monitor the electric power grid, proactively predict peak power periods and electronically dispatch our customers generation at the right time, and for the right duration, with the goal of optimizing our customers energy efficiency. Peak power periods vary by geography, time of day, utility infrastructure, utility customer mix and weather. Using our predictive capabilities, we coordinate the operation of our customers Distributed Generation systems during times of peak demand so that our customers can benefit from energy savings and beneficial electricity rates that are available from managing energy use during these periods of high electricity demand. Our ability to enable our customers to benefit from these savings is enhanced by our expertise in understanding complicated utility rate structures.

Our PowerControl monitoring center is an integral part of our Distributed Generation solution. We monitor and maintain our Distributed Generation systems for our customers around the clock, with the goal of ensuring reliability and removing many of the burdens associated with ownership. Distributed Generation systems must be operated periodically so that they function properly when called upon to supply power. We remotely start and operate the systems using sophisticated communication devices and we continuously monitor their performance. In the event of a mechanical problem, technicians are immediately dispatched. Additionally, we provide management services, including fuel management services, preventive and emergency maintenance services and monitoring and dispatching services.

Energy Storage

We have developed, and since 2015 have been offering, sophisticated energy storage solutions, which support a microgrid and enable a customer to integrate solar and other generation sources with our control solutions. Our energy storage solutions, including battery storage solutions, enable the enhanced utilization of renewable energy sources, designed to improve the reliability and quality of alternative energy sources such as solar or wind power. Our typical energy storage solution is intended to help leverage a customer s renewable energy investment in a number of ways, such as by providing output firming, which stabilizes power against variances in meteorological conditions. Another advantage of our solutions is power smoothing, which improves power quality and eliminates harmonics, rapid voltage swings and frequency deviations. Our energy storage solutions can be combined with our Distributed Generation or Solar Energy systems to provide the benefits of those solutions, including peak shifting and fast and reliable standby power. In addition, our energy storage solutions are scalable, flexible and technology-neutral to meet the needs of our customers.

Business Models

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 original business model, which is still our predominant model, we sell the Distributed Generation system to the customer. We refer to this as the project-based or customer-owned model. For Distributed Generation systems that we sell 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 also usually receive revenue on the form of a monthly fee, in an amount modest relative to the initial purchase price of the system, to monitor the system for backup power and peak shaving purposes as well as to maintain the system.

We have structured our second business model to generate ongoing, long-term recurring revenues for us. We refer to this as our recurring revenue , PowerSecure-owned or company-owned model. For Distributed Generation systems tha we deploy 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 15 years, and these contracts can be renewed or extended. The fees that generate our revenues in the recurring revenue model are generally paid to us by the customer on a monthly basis and are set at a level 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 with the customer, although they can also be structured with fixed monthly payments. For our shared savings recurring revenue contracts, a portion or all of our fees are earned out of the pool of peak shaving savings the system creates for the customer.

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We believe that the customer value proposition is strong in both economic models. In the customer-owned model, where the customer pays for and obtains ownership of the system, the customer s typical targeted returns on investment range from 15% to 25%, with a payback targeted at three to five years. These paybacks to the customer result from a combination of the benefits of peak shaving, which creates lower total electricity costs, and the value that the backup power provides in avoiding losses from business interruptions due to power outages. Additionally, utilities gain the benefits of smoother electricity demand curves and lower peaks, as the result of having highly reliable standby power supporting customers in their utility systems, power distribution and transmission efficiencies, and of avoiding major capital outlays that would have been required to build centralized power plants and related infrastructure for peaking needs. In our PowerSecure-owned model, where we pay for, install and maintain ownership of the system in exchange for the customer paying us smaller fees over a period of years, 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 a variety of ways, including between us and the utility, between us and the customer, or among us, the customer and the utility.

In 2015, 87.7% of our Distributed Generation systems revenues consisted of customer-owned sales, and the remaining 12.3% of our Distributed Generation systems revenues were derived from recurring revenue sales. Sales of customer-owned systems generate revenues and profits that are recorded on our financial statements over the course of the project implementation, which is generally a period ranging from three to 18 months depending on the size of the project. Sales of PowerSecure-owned projects are recorded over a longer time frame continuing well after the project is implemented, typically ranging from five to 15 years depending on the life of the underlying contract. Changes both in the absolute amount of sales under these two systems and in the proportionate ratio between the two sales models significantly impact our revenues and profits and cause them to fluctuate from period to period. Changes in sales under our customer-owned models result in significant changes in our near-term revenues and profits. By contrast, sales under the PowerSecure-owned system model generate revenues and profits that are more consistent from period-to-period, 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, commissioned and successfully operating.

Our Energy Storage solutions are sold to customers under the project-based model, in which the customer acquires ownership of the Energy Storage system 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.

Solar Energy

Overview

Our Solar Energy segment, which is operated primarily by our PowerSecure Solar subsidiary. Our Solar Energy systems use photovoltaic, or PV, 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 and Energy Storage solutions platform. These Solar Energy systems are sold under the project-based, customer-owned model.

Our turn-key solar energy system capabilities include the design, engineering, project development, sourcing and procurement, installation and project management of these solutions. Our solar energy systems primarily involve photovoltaic, or PV, panels generating power without moving parts or fuel. We rely heavily on our engineering expertise to design systems that optimize producing the maximum energy at the lowest capital cost. A successful solar power system requires the proper selection and configuration of panels, mounting equipment and inverters, which our

engineering expertise and attention can provide. Our solar team has experience with a wide range of PV technologies, so we are supplier and technology neutral. Our technical expertise also includes permitting, interconnecting, commissioning, maintaining and monitoring the solar power system.

Market

In addition, the growing desire for utilities and their customers to incorporate renewable energy sources into their portfolios has driven a demand for distributed solar energy systems. We provide turn-key solar photovoltaic systems either as a stand-alone solution or in conjunction with our traditional Distributed Generation systems and/or our proprietary Energy Storage Solutions. Our capabilities include the ability to provide turn-key systems, including engineering, procurement and construction, as well as provide on-going maintenance and monitoring services.

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Solar energy is a growing form of renewable energy with numerous economic as well as environmental benefits that make it an attractive complement to, or substitute for, traditional forms of electricity generation. In recent years, the price of PV solar systems, and accordingly the price of producing electricity from PV solar, has dropped to levels in some markets and applications that are close to or even below the retail price of electricity. Moreover, there are a variety of financial and other economic incentives for solar power, offered by various levels of governmental authorities and through tax incentives and private incentives. Many of these support programs expire, phase out over time, require renewal by the applicable authority, or may be modified without notice. For example, the 30% investment tax credit under federal tax regulations, which were scheduled to expire at the end of 2016, have been extended to the end of 2019, after which time is declines in stages to a permanent 10% rate credit starting in 2022. The rapid price decline that solar systems have experienced in recent years has created opportunities to develop solar systems in certain markets even with limited or no financial incentives.

Solar energy systems offer a variety of benefits that help drive demand. Solar systems require no fuel, which provides a valuable benefit to owners of solar systems relative to traditional electricity generation assets. Once installed, solar systems can function for dozens of years with less maintenance and oversight than electricity generation. In addition, solar energy systems offer environmental benefits, including that they do not generate any greenhouse or other emissions and use little or no water.

Solar energy markets are continuing to develop, aided by the factors discussed above as well as by declining selling prices, which make solar power more affordable to new markets.

Business Model

Our Solar Energy systems are typically sold to customers on a project-based model on a basis similar to that Distributed Generation model. We are engaged to design, source, procure, build and install Solar Energy systems and projects, for utilities and their customers or for developers and their customers. We are generally paid a fixed contractual price for these projects, plus any modifications or scope additions. We recognize revenues from these projects on an output method using percentage-of-completion basis.

Significant Projects

Our Solar Energy distributed generation business significantly expanded under awards from Georgia Power Company, one of the largest investor-owned utilities in the U.S., to provide utility-scale solar installations for the benefit of Georgia Power customers. We currently expect those projects to generate a total of approximately $120 million in revenues during 2015 and 2016, including revenues from such projects that we recognized in 2015. The first two projects were awarded in 2014 under Engineering, Procurement and Construction Agreements, which we refer to as EPC Contracts, between the utility and us, for the benefit of Georgia Power customers. In July 2015, we entered into an EPC Contract with Georgia Power for a third solar installation.

We were previously notified by Georgia Power 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, or could be terminated. Accordingly, we have been in discussions with Georgia Power regarding the status of the project and currently believe that the EPC Contract may be terminated entirely. 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 definitively modified. In November 2015, based on the information available as of that time, we estimated that the associated revenues from the project would be reduced from the initial $85 million project size to approximately $60 million. Based on more recent information we have received, we currently estimate that no revenue will be generated by the July 2015 EPC Contract and, accordingly, have removed it entirely from revenue backlog as discussed in Item 7. Management s

Discussion and Analysis of Financial Condition and Results of Operations Backlog .

Utility Infrastructure

Overview

Our Utility Infrastructure solutions are focused on helping electric utilities design, build, upgrade and maintain infrastructure that enhances the efficiency of their grid systems. Our products and services include transmission and distribution system construction and maintenance, installation of advanced metering and efficient lighting, and emergency storm restoration. Additionally, we provide utilities with a wide range of engineering and design services, as well as consulting services for cybersecurity compliance, and regulatory and rate design matters.

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On February 8, 2016, we entered into a five-year MSA with the Bahamas Power and Light Company, a wholly owned subsidiary of Bahamas Electricity Corporation, the government owned electric utility for The Bahamas (excluding Grand Bahama), to assist BPL to conduct its operations as the electric utility for The Bahamas, manage the Bahamas electric infrastructure, and enhance its overall electric generation system and supply. The MSA includes a business plan which outlines cost-reduction and reliability targets along with renewable energy and customer service initiatives.

Market

There are more than 3,000 electric utilities in the U.S. In 2013, investor-owned electric utilities and stand-alone transmission companies invested a record-setting $37.7 billion in transmission and distribution infrastructure, according to the Edison Electric Institute. Several industry trends indicate that strong transmission and distribution investment by utilities will continue over the coming years, including the need to upgrade and replace the utility grid s aging infrastructure to improve and ensure reliability, to respond to the expected long-term increase in demand for electric power, to incorporate renewable energy and other new power sources into the grid, and to ensure the security of the grid. According to a forecast made in October 2015 by the Edison Electric Institute, investor-owned electric utilities were planning to invest approximately $85 billion on electric transmission infrastructure between 2015 and 2018. In December 2014, the Brattle Group projected that the total U.S. transmission investment over the next decade will be $120-$160 billion. In addition, the megatrend toward improving the efficiency of our energy delivery and consumption is driving initiatives and innovations in smart grid technology which will also be a positive driver for transmission and distribution system infrastructure spending.

Utilities generally use a combination of internal and third-party vendors to provide construction and maintenance services for their transmission and distribution infrastructure. Utilities also utilize third party engineering and consulting firms to supplement their internal engineering resources. We provide services in each of these areas for IOUs, electric cooperatives and municipal utilities of virtually every size. Historically, our geography was primarily concentrated in the Southeast. However, we have grown the geographic base of the utilities we serve over the last several years to include utilities in the Mid-Atlantic, Midwest, Gulf Coast and Southeast regions. We intend to continue to expand our utility relationships as our business grows and develops.

Products and Services

Our largest source of revenue within our Utility Infrastructure area is our UtilityServices products and services. Our UtilityServices team provides utilities with transmission and distribution 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 IOUs, municipalities and cooperative utilities assess, improve and maintain their compliance with the NERC s CIP Reliability Standards.

Business Model

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 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

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substations, transmission 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 additions. We recognize revenues from these projects on a cost-to-cost method using 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 generally 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.

Under the terms of our MSA with BPL, we will receive a baseline annual management fee of $2 million. In addition, on an annual basis, if BPL achieves certain pre-defined key performance indicators related to cost reductions, reliability improvements and customer service enhancements, we would receive additional performance-based compensation of up to 150 percent of the annual management fee.

Energy Efficiency

Overview

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, under our PowerSecure Lighting business, and energy efficiency upgrades for large energy services companies, referred to as ESCO customers, and large retailers, under our Energy Efficiency Services business. Our LED lighting solutions are primarily focused on the utility, commercial and industrial markets, while our energy efficiency solutions are primarily focused on serving the ESCO and retail channels. We also market 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, led by our PowerSecure Lighting team and operations, include the following:

Our Solais brand, which includes LED-based lamps and fixtures for department stores and other commercial applications. Our Solais team oversees all of our LED lighting operations.

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.

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 public sector commercial, industrial and institutional facilities. In September 2014, we acquired the electrical contracting business of Apex. Apex 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

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Efficiency services to large retailers. In December 2015, we acquired the energy services business of ESCO Energy Services Company, which provides lighting retrofit solutions that deliver energy savings for large ESCOs and commercial and industrial, institutional, utility and municipal customers across the United States. The acquired business provides a broad range of turn-key energy efficiency services including energy audits, materials procurement, project management, implementation and verification, expanding both our geographical presence and services capabilities.

The primary client base for our Energy Efficiency Services products and services are the large, publicly-traded ESCOs. Through our relationships with these ESCOs, we provide facility upgrades primarily 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 commercial and industrial clients for which we provide our energy efficiency solutions directly, when an ESCO is not involved in the customer relationship. Through Apex, we are also able to provide our Energy Efficiency Services solutions to large retailers.

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 our Energy Efficiency Services 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 have also recently added our Distributed Generation products as part of these solutions, and in the future plan to incorporate our and LED lighting products as well.

Market

The market for LED-based lighting is large and expected to grow rapidly over the next decade. This market growth is driven by the many benefits LED lights provide over traditional lighting, including superior energy efficiency, improved quality of the light emitted, superior heat characteristics, smaller size, relatively low cost over time and longer life. Because of these factors, LED lighting is also better for the environment than traditional lighting. LED lighting can be utilized in a large range of broad general commercial and industrial lighting applications, as well as used effectively in very specialized applications. In our markets, many of our customers have concluded that LED lighting is the superior choice over traditional lighting, both for new facility installations and for investments to retrofit existing facilities, due to the financial and environmental benefits and its superior lighting quality. Utilities can also benefit from this technology due to the availability of renewable energy portfolio credits for the energy efficiencies our lights deliver, as well as the direct financial and environmental benefits available from investments in LED street lights.

The general LED lighting industry and market is served by companies in the areas of LED chip technology and manufacturing, and in LED lighting application development and manufacturing, the latter area being the one in which we participate and serve. The market for LED-based lighting applications, and the pace at which LED lighting is being and will be adopted, is driven by the return on investment available when an LED-based light is utilized instead of, or as a replacement for, traditional lighting. In particular, the size and growth of the LED lighting market is driven by the return on investment available to retrofit existing traditional lighting installations with LED lighting, given the significant size of the installed base of traditional lighting. To a large extent, this return on investment is influenced and driven by the cost of the LED itself, because the LED is the largest single component of cost in the LED lighting application. Over the past several years, the cost of LEDs has decreased significantly, which has been a

catalyst driving the growth and expansion in the market for general LED lighting applications. Additionally, LED lighting application and manufacturing companies, such as us, have improved the efficiency and effectiveness of application designs. The combination of these factors has increased the return on investment for LED lighting applications in general, and for LED retrofit opportunities in particular. We believe these factors will continue to cause the market for LED-based general lighting to continue to grow and expand over the next five to 10 years. Demand for our LED products may also be impacted by changes in government policies, standards or regulations that discourage the use of certain traditional lighting technologies.

In the Energy Efficiency Services market, ESCOs develop, install and arrange financing for projects designed to improve the energy efficiency of buildings and other facilities. Typical products and services offered by energy efficiency companies include boiler and chiller replacement, HVAC upgrades, lighting retrofits, equipment

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