

POWERSECURE INTERNATIONAL, INC.

Form PRE 14A

April 06, 2012

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U.S. Securities and Exchange Commission

Washington, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

Filed by the Registrant ☒

Filed by a Party other than the Registrant ☐

Check the appropriate box:

- ☒ Preliminary Proxy Statement
- ☐ **Confidential, for Use of the Commission Only** (as permitted by Rule 14a-6(e)(2))
- ☐ Definitive Proxy Statement
- ☐ Definitive Additional Materials
- ☐ Soliciting Material Pursuant to Rule 14a-12

POWERSECURE INTERNATIONAL, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- ☒ No fee required.
- ☐ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
 - 1) Title of each class of securities to which transaction applies:

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- 2) Aggregate number of securities to which transaction applies:

- 3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

- 4) Proposed maximum aggregate value of transaction:

- 5) Total fee paid:

- .. Fee paid previously with preliminary materials.

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- 1) Amount Previously Paid:

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- 3) Filing Party:

- 4) Date Filed:

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POWERSECURE INTERNATIONAL, INC.

1609 Heritage Commerce Court

Wake Forest, North Carolina 27587

NOTICE OF 2012 ANNUAL MEETING OF STOCKHOLDERS

To Be Held On June 19, 2012

To Our Stockholders:

The 2012 Annual Meeting of Stockholders of **POWERSECURE INTERNATIONAL, INC.** will be held at the Hampton Inn Hotel, 1904 South Horner Boulevard, Sanford, North Carolina, on Tuesday, June 19, 2012, at 9:00 a.m., local time, for the following purposes:

1. To elect three directors, one as a Class I director to hold office for a term of one year and two as Class III directors to hold office for a term of three years;
2. To approve the amendment and restatement of our 2008 Stock Incentive Plan, including an amendment to increase the number of shares of our common stock authorized for issuance under the plan by 1,400,000 shares to a total of 2,000,000 shares;
3. To adopt and approve an amendment to our Second Restated Certificate of Incorporation to increase the number of shares of common stock authorized for issuance by 25,000,000 shares to a total of 50,000,000 shares;
4. To approve, on an advisory basis, the compensation of our named executive officers;
5. To ratify the appointment of Hein & Associates LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2012; and
6. To transact such other business as may properly come before the Annual Meeting or any adjournments or postponements of the Annual Meeting.

These items of business are more fully described in the proxy statement accompanying this notice.

The Board of Directors has fixed the close of business on April 23, 2012 as the record date for determining the stockholders who are entitled to notice of and to vote at the Annual Meeting and at any adjournments or postponements of the Annual Meeting.

By Order of the Board of Directors,

Sidney Hinton

President and Chief Executive Officer

Wake Forest, North Carolina

April , 2012

YOUR VOTE IS IMPORTANT

Whether or not you plan to attend the Annual Meeting, you are urged to submit your proxy or voting instructions as soon as possible so that your shares can be voted at the Annual Meeting. You may vote your shares by telephone or Internet or by completing, signing, dating and returning your proxy card in the enclosed, self-addressed stamped envelope, which requires no postage if mailed in the United States. For further instructions on how to vote your shares, please refer to the section entitled Questions and Answers About the Annual Meeting in the proxy statement and the instructions on the proxy card or voting instruction form.

Important Notice Regarding the Availability of Proxy Materials for

the Annual Meeting of Stockholders to be Held on June 19, 2012:

The proxy statement and our 2011 Annual Report to Stockholders

are available at www.edocumentview.com/powr.

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POWERSECURE INTERNATIONAL, INC.

1609 Heritage Commerce Court

Wake Forest, North Carolina 27587

PROXY STATEMENT

For The

2012 ANNUAL MEETING OF STOCKHOLDERS

To Be Held On June 19, 2012

QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING AND VOTING

Why am I receiving these materials?

The Board of Directors of PowerSecure International, Inc. ("PowerSecure," we, our or us) is providing these proxy materials to you in connection with the Board's solicitation of proxies for use at our 2012 Annual Meeting of Stockholders (the "Annual Meeting"), which will take place at the Hampton Inn Hotel, 1904 South Horner Boulevard, Sanford, North Carolina, on Tuesday, June 19, 2012, at 9:00 a.m., local time. As a stockholder of record as of the close of business on April 23, 2012, the record date for the Annual Meeting, you are invited to attend the Annual Meeting and are requested to vote on the proposals described in this proxy statement. We began mailing this proxy statement, the accompanying proxy card and the notice of Annual Meeting on or about April 10, 2012.

What information is contained in this proxy statement?

The information included in this proxy statement relates to the proposals to be voted on at the Annual Meeting, the voting process, our corporate governance, the compensation of our directors and of our executive officers, and certain other required information. Our 2011 Annual Report to Stockholders, notice of the Annual Meeting and a proxy card are also enclosed with this proxy statement.

What proposals will stockholders vote on at the Annual Meeting?

Stockholders will vote on five proposals at the Annual Meeting:

the election of three directors, one as a Class I director to hold office for a term of one year and two as Class III directors to hold office for a term of three years (Proposal 1);

the approval of the amendment and restatement of our 2008 Stock Incentive Plan, including an amendment to increase the number of shares of our common stock authorized for issuance under the plan by 1,400,000 shares to a total of 2,000,000 shares (Proposal 2);

the adoption and approval of an amendment to our Second Restated Certificate of Incorporation to increase the number of shares of our common stock authorized for issuance by 25,000,000 shares to a total of 50,000,000 shares (Proposal 3);

the approval, on an advisory basis, of the compensation of our named executive officers (Proposal 4); and

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the ratification of the Audit Committee's appointment of Hein & Associates LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2012 (Proposal 5).

We will also consider any other business that properly comes before the Annual Meeting, although as of the date of this proxy statement we are not aware of any other matters to be presented at the Annual Meeting other than as set forth in this proxy statement.

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How does the Board of Directors recommend that I vote my shares?

Our Board of Directors recommends that you vote your shares:

FOR the election as directors of each of the three nominees named in this proxy statement (Proposal 1);

FOR the approval of the amendment and restatement of our 2008 Stock Incentive Plan (Proposal 2);

FOR the adoption and approval of an amendment to our Second Restated Certificate of Incorporation to increase the number of shares of our common stock authorized for issuance by 25,000,000 shares to a total of 50,000,000 shares (Proposal 3);

FOR the approval, on an advisory basis, of the compensation of our named executive officers (Proposal 4); and

FOR the ratification of the Audit Committee's appointment of Hein & Associates LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2012 (Proposal 5).

Who is entitled to vote at the Annual Meeting?

Each holder of record of shares of our common stock as of the close of business on April 23, 2012, which is the record date for the Annual Meeting, is entitled to vote at the Annual Meeting. Each share of our common stock outstanding as of the close of business on the record date is entitled to one vote on each proposal presented at the Annual Meeting. You may vote all shares owned by you as of the record date, including shares that are held directly in your name as the stockholder of record, and shares that are held for you as the beneficial owner in street name through a broker, bank, trustee or other nominee. As of the close of business on the record date, shares of common stock were outstanding and entitled to vote.

What is the difference between holding shares as a stockholder of record and as a beneficial owner in street name ?

These terms describe how your shares are held. Most of our stockholders hold their shares beneficially through a broker, bank, trustee or other nominee rather than directly in their own name. As described below, there are some distinctions between shares held of record and those owned beneficially.

Shares held of record: If your shares are registered directly in your name with our transfer agent, Computershare Trust Company, N.A., you are considered the stockholder of record of those shares, and these proxy materials are being sent directly to you by us. As a stockholder of record, you have the right to grant your voting proxy directly to us or to vote in person at the Annual Meeting. We have enclosed a proxy card for you to use. You may also vote on the Internet or by telephone, as described on the proxy card and as described below under the heading *How can I vote my shares without attending the Annual Meeting?*

Shares owned beneficially: If your shares are held in an account by a broker, bank, trustee or other nominee in its name as a custodian, then you are considered the beneficial owner of those shares, which are held in street name, and these proxy materials are being forwarded to you by your broker, bank, trustee or other nominee, which is considered the stockholder of record of those shares. As the beneficial owner, you have the right to direct your broker, bank, trustee or other nominee how to vote those shares, and you are also invited to attend the Annual Meeting. However, because you are not the stockholder of record of those shares, you may not vote those shares in person at the Annual Meeting unless you obtain a legal proxy from the broker, bank, trustee or other nominee that holds your shares giving you the right to vote the shares at the Annual Meeting. Your broker, bank, trustee or other nominee has enclosed or provided voting instructions for you to use in directing your broker, bank, trustee or other nominee how to vote your shares. Many brokers or banks also offer voting on the Internet or by telephone. Please refer to the voting instruction form you received from your broker, bank, trustee or other nominee for instructions on the voting methods they offer.

Can I attend the Annual Meeting?

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You are entitled and invited to attend the Annual Meeting only if you are a stockholder of record or a beneficial owner of shares held in street name as of the record date or hold a valid proxy for the Annual Meeting.

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Can I vote my shares in person at the Annual Meeting?

If you are a stockholder of record as of the record date, you may vote your shares in person at the Annual Meeting. If you are a beneficial owner of shares held in street name as of the record date, you may vote your shares in person at the Annual Meeting only if you obtain a legal proxy from the broker, bank, trustee or other nominee that holds your shares giving you the right to vote the shares at the Annual Meeting. Even if you plan to attend the Annual Meeting, we recommend that you also submit your proxy or voting instructions as described below so that your vote will be counted if you later decide not to attend the Annual Meeting.

How can I vote my shares without attending the Annual Meeting?

Whether you hold shares directly as a stockholder of record or indirectly as a beneficial owner in street name, you may direct how your shares are voted without attending the Annual Meeting.

If you are a stockholder of record, you may vote by submitting a proxy by one of the following methods:

By Internet: Stockholders of record with Internet access may submit proxies by following the Vote by Internet instructions on their proxy cards until 1:00 a.m., Central Time, on June 19, 2012.

By Telephone: Stockholders of record who live in the United States or Canada may submit proxies by following the Vote by Telephone instructions on their proxy cards until 1:00 a.m., Central Time, on June 19, 2012.

By Mail: Stockholders of record may submit proxies by completing, signing and dating their proxy cards and mailing them in the accompanying pre-addressed envelopes. Proxy cards submitted by mail must be received by the time of the Annual Meeting in order for your shares to be voted.

If you hold shares beneficially in street name, you may vote by submitting voting instructions to your broker, bank, trustee or other nominee. Most stockholders who hold shares beneficially in street may vote by Internet or by telephone by accessing the Internet website or by calling the number specified on the voting instruction cards provided by their broker, banks, trustees or other nominees, or by mail by completing, signing and dating the voting instruction cards provided and mailing them in the accompanying pre-addressed envelope. Please refer to the voting instruction card provided by your broker, bank, trustee or other nominee for details.

Can I revoke my proxy and change my vote after I submit my proxy?

If you are a stockholder of record, you may revoke your proxy and change your vote by taking any of the following actions before your shares are voted at the Annual Meeting:

granting a new proxy bearing a later date (which automatically revokes the earlier proxy) using any of the methods described above (and until the applicable deadline for each method);

delivering a written notice of revocation to our Secretary; or

attending the Annual Meeting and voting your shares in person, although attendance at the Annual Meeting will not in and of itself constitute the revocation of a proxy.

For shares you hold beneficially in street name, you may change your vote by submitting new voting instructions to your broker, bank, trustee or other nominee following the instructions they provided, or, if you have obtained a legal proxy from your broker, bank, trustee or other nominee granting you the right to vote your shares, by attending the Annual Meeting and voting in person.

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How will my shares be voted if I sign and return my proxy card or voting instruction form without specifying how they should be voted?

If you provide specific voting instructions with respect to certain items, your shares will be voted as you specify on such items. If you sign and return your proxy card or voting instruction form without specifying how your shares are to be voted, your shares will be voted as recommended by the Board of Directors. See *How does the Board of Directors recommend that I vote my shares?* above. If you are a beneficial owner and do not return a voting instruction form, your broker, bank, trustee or other nominee may only vote on Proposal 5, the ratification of the appointment of Hein & Associates LLP.

What is the quorum requirement for the Annual Meeting?

The quorum requirement is the minimum number of shares that must be present for us to hold and transact business at the Annual Meeting. For a quorum to exist, the holders of a majority of the shares of common stock outstanding as of the record date must be present in person or represented by proxy at the Annual Meeting. Both abstentions and broker non-votes, as discussed below, are counted as present for the purpose of determining the presence of a quorum.

How are broker non-votes, votes withheld and abstentions treated?

Generally, broker non-votes occur on a proposal when shares held of record by a broker, bank, trustee or other nominee in street name for a beneficial owner are not voted on that proposal because the broker, bank, trustee or nominee has not received voting instructions from the beneficial owner and does not have discretionary authority to vote those shares on that proposal. A broker or other nominee is entitled to vote shares held for a beneficial owner on routine matters, such as the ratification of the independent registered public accounting firm, without instructions from the beneficial owner of those shares. However, a broker is not entitled to vote shares for a beneficial owner on non-routine items absent instructions from the beneficial owner of such shares. Broker non-votes are counted for purposes of determining whether a quorum exists, but are not counted for purposes of determining the number of shares represented and voted with respect to an individual proposal.

We expect that Proposals 1 through 4 the election of directors, the amendment and restatement of our 2008 Stock Incentive Plan, the amendment to our Second Restated Certificate of Incorporation, and the advisory vote on the compensation of our named executive officers will be non-routine matters. So, if you hold your shares in street name and do not instruct your broker, bank, trustee or other nominee how to vote your shares with respect to any of those proposals, then your broker, bank, trustee or other nominee is not permitted to vote your shares on those proposals and your shares will be counted as broker non-votes on those proposals.

Votes withheld and abstentions are deemed present at the Annual Meeting and are counted for purposes of determining whether a quorum exists and for purposes of determining the number of shares represented and voted with respect to an individual proposal.

If you sign your proxy card without specifying your voting instructions on any proposal, then your shares will be voted in accordance with the recommendation of our Board of Directors on such proposal. See *How will my shares be voted if I sign and return my proxy card without specifying how they should be voted?* above.

The effects of broker non-votes, votes withheld and abstentions on the five proposals to be voted on by our stockholders at the Annual Meeting are described in *What vote is required to approve each Proposal* below.

What vote is required to approve each Proposal?

On Proposal 1, the election of three directors, directors are elected by a plurality of the votes cast at the Annual Meeting, meaning that the nominee for Class I and the two nominees for Class III who receive the highest number of FOR votes will be elected as directors in those respective classes. Votes withheld and broker non-votes will have no effect on the outcome of the election of directors.

On Proposal 2, the amendment and restatement of our 2008 Stock Incentive Plan, the affirmative vote of a majority of the shares present, in person or by proxy, at the Annual Meeting and entitled to vote on Proposal 2 is required to approve the amendment and restatement. Abstentions will have the same effect as votes against Proposal 2, while broker non-votes will have no effect on the outcome of Proposal 2.

On Proposal 3, the amendment to our Second Restated Certificate of Incorporation, the affirmative vote of a majority of the shares of our common stock outstanding as of the record date is required to approve the amendment. Abstentions and broker non-votes will have the same effect as votes against Proposal 3.

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On Proposal 4, the advisory vote to approve the compensation of our named executive officers, the affirmative vote of a majority of the shares present, in person or by proxy, at the Annual Meeting and entitled to vote on Proposal 4 is required to approve the compensation of our named executive officers. However, Proposal 4 is advisory and the results of the voting on the compensation of our named executive officers are not binding on us, our Board of Directors or the Compensation Committee, although our Board of Directors and the Compensation Committee will take the voting results on Proposal 4 into consideration when taking future actions on the compensation of our named executive officers. Abstentions will have the same effect as votes against Proposal 4, while broker non-votes will have no effect on the outcome of the advisory vote on Proposal 4.

On Proposal 5, the ratification of the Audit Committee's appointment of Hein & Associates LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2012, the affirmative vote of a majority of the shares present, in person or by proxy, at the Annual Meeting and entitled to vote on Proposal 5 is required to ratify the appointment of Hein. Abstentions will have the same effect as votes against Proposal 5, while broker non-votes will have no effect on the outcome of the vote on Proposal 5.

Is cumulative voting permitted for the election of directors?

No, you may not cumulate your votes for the election of directors.

What happens if additional matters are presented at the Annual Meeting?

Other than the five proposals described in this proxy statement, as of the date of this proxy statement we are not aware of any other business to be acted upon at the Annual Meeting. If any additional matters are properly presented for a vote at the Annual Meeting, the persons appointed as proxies in the proxy card will have the discretionary authority to vote or act thereon in accordance with their best judgment.

Who will count the votes?

A representative from Computershare Trust Company, N.A., our transfer agent, will count the votes and serve as the inspector of election at the Annual Meeting.

What should I do if I receive more than one set of proxy materials?

You may receive more than one set of proxy materials, including multiple copies of this proxy statement and multiple proxy cards or voting instruction cards, if your shares are registered in different names or are held in more than one account. Please vote all your shares by voting each proxy card and voting instruction card that you receive.

How can I access the proxy materials and annual report electronically?

The notice of Annual Meeting, this proxy statement and our 2011 Annual Report to Stockholders are available on the Internet at www.edocumentview.com/powr.

Where can I find the voting results for the Annual Meeting?

We will file a Current Report on Form 8-K with the Securities and Exchange Commission within four business days of the Annual Meeting announcing the voting results at the Annual Meeting.

Who pays the costs of this proxy solicitation?

We will pay the entire cost of preparing, assembling, printing, mailing and distributing these proxy materials and soliciting votes. In addition to the mailing of these proxy materials, we may also solicit proxies in person or by mail, telephone, facsimile, electronic communication or other means of communication by our directors, officers and employees, but we will not provide any additional or special compensation for such soliciting activities. We will request that brokerage houses, banks, nominees, trustees and other custodians forward proxy solicitation materials for shares of common stock held of record by them to the beneficial owners of such shares, and, upon request, we will reimburse those custodians for their reasonable out-of-pocket expenses incurred in forwarding those materials. In addition, we have engaged Georgeson Inc., a professional proxy solicitation firm, to assist us in the solicitation of proxies for an estimated fee of \$12,500, plus customary costs and expenses for those services.

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CORPORATE GOVERNANCE

We believe that solid corporate governance principles and practices provide an important framework to ensure that our company is managed on a sound basis for the long-term benefit of our stockholders. Our Board of Directors periodically reviews its corporate governance policies and practices in light of changes and developments in laws and regulations, including the rules and regulations of the Securities and Exchange Commission and the listing standards of The NASDAQ Stock Market, as well as best practices recommended by recognized authorities.

Corporate Governance Guidelines

Our Board of Directors has adopted a set of Corporate Governance Guidelines, which are intended to formalize the corporate governance practices to which we adhere through our Board of Directors and its committees. Our Board reviews our Corporate Governance Guidelines at least annually, and from time to time may revise our Corporate Governance Guidelines to reflect new laws, regulations, requirements and evolving corporate governance practices. Our Corporate Governance Guidelines are available on the Investor Relations section of our website at www.powersecure.com under Corporate Governance.

Director Independence

Under our Corporate Governance Guidelines and as required by the listing standards of The NASDAQ Stock Market, a majority of the members of our Board of Directors must be independent directors. In order to assist it in determining the independence of our directors, our Board has adopted a formal set of categorical standards, which we refer to as the Standards of Director Independence, based upon and consistent with the definitions of independent directors under applicable law, SEC rules and regulations, including Rule 10A-3 under the Securities Exchange Act of 1934, as amended (the Exchange Act), and the current listing standards of The NASDAQ Stock Market. Under these Standards of Director Independence, a director will only be considered independent if the director is not an executive officer or employee of our company and our Board of Directors affirmatively determines that the director has no relationship which, in the opinion of our Board, would interfere with that director's exercise of independent judgment in carrying out the responsibilities of a director. In making such determination, the Board of Directors considers all relevant facts and circumstances, including any transactions in which we participate and in which any director has any interest. Our Standards of Director Independence are available on the Investor Relations section of our website at www.powersecure.com under Corporate Governance.

The Board of Directors has affirmatively determined and concluded that four of its five current members—Anthony D. Pell, Kevin P. Collins, John A. (Andy) Miller and Thomas J. Madden III, who are the non-management members of our Board—are independent within the meaning and definition of that term under our Standards of Director Independence and the listing requirements of The NASDAQ Stock Market. Accordingly, a majority of the members of the Board of Directors is independent. In addition, our Board has determined that each member of the Audit Committee, the Compensation Committee, the Nominating and Corporate Governance Committee and the Risk Committee is independent. In making its independence determinations, our Board considered that Messrs. Collins, Miller and Madden are not executive officers or employees of our company and have no relationships with us other than as directors and stockholders. Our Board also determined that the relationship of Mr. Pell as our non-executive Chairman of the Board, including the \$15,000 that he is paid by us annually for his services as our Chairman, does not interfere with his exercise of independent judgment as a director. The Board of Directors also determined that W. Kent Geer, who is not currently on the Board but has been nominated to serve as a director, is also independent within the meaning and definition of that term under our Standards of Director Independence and the listing requirements of The NASDAQ Stock Market.

Meetings of the Board of Directors

Our Board of Directors, which consists of five members, meets regularly throughout the year and holds special meetings and acts by unanimous written consent whenever circumstances require. The Board of Directors held a total of 11 meetings during 2011. During 2011, each director attended more than 90% of the total number of meetings of the Board and of the committees of the Board on which he served, and the overall attendance of all directors at all meetings of the Board and committees of the Board exceeded 99%.

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Committees of the Board of Directors

Our Board of Directors has established a standing Audit Committee, Compensation Committee, Nominating and Corporate Governance Committee and Risk Committee. The membership of each committee and its functions, duties and responsibilities are discussed below. Each committee meets regularly and operates under a written charter that has been adopted by our Board, which periodically reviews these committee charters and amends them as it deems appropriate. These committee charters are available on the Investor Relations section of our website at www.powersecure.com under Corporate Governance. All members of each committee are independent directors.

Audit Committee

Our Board of Directors has established an Audit Committee in accordance with Section 3(a)(58)(A) of the Exchange Act. In 2011, the members of the Audit Committee were Anthony D. Pell (Chairman), Kevin P. Collins, John A. (Andy) Miller and Thomas J. Madden III. The Board of Directors has determined that each member of the Audit Committee is independent under our Standards of Director Independence, under the current listing standards of The NASDAQ Stock Market applicable to members of an audit committee, and under Rule 10A-3 under the Exchange Act. The Board of Directors has also determined that each member of the Audit Committee is able to read and understand fundamental financial statements and qualifies as an audit committee financial expert, as that term is defined in Item 407(d) of Regulation S-K under the Exchange Act. The Audit Committee met seven times during 2011.

The purpose of the Audit Committee is to assist the Board of Directors in fulfilling its oversight and monitoring responsibilities relating to:

the quality and integrity of our financial statements;

the quality and integrity of our auditing, accounting and financial reporting processes generally;

our system of internal control over financial reporting and disclosure controls and procedures;

our independent registered public accounting firm, including its engagement, compensation, qualifications, independence and performance; and

our compliance with legal and regulatory requirements.

The Audit Committee's duties and responsibilities include:

reviewing and discussing with management and our independent registered public accounting firm our annual audited and quarterly unaudited consolidated financial statements;

determining whether to recommend to the Board of Directors that our annual consolidated financial statements be included in our Annual Report on Form 10-K;

reviewing with management any earnings announcements or guidance forecasts and other announcements regarding our historical or projected results of operations;

appointing and, when appropriate, terminating our independent registered public accounting firm;

reviewing and pre-approving the nature, scope and fee arrangements of the annual audit and non-audit services of our independent registered public accounting firm;

reviewing the independence of our independent registered public accounting firm;

reviewing the scope and the results of the annual audit of our consolidated financial statements by our independent registered public accounting firm;

reviewing and discussing with management, our internal accountants and our independent registered public accounting firm our accounting and financial reporting practices and procedures and the adequacy and effectiveness of our system of internal controls;

preparing the annual Audit Committee report required by the rules of the SEC to be included in our proxy statement for our Annual Meeting of Stockholders;

reviewing any transaction that involves a potential conflict of interest or a related person;

adopting procedures for the receipt, retention and treatment of employee concerns and complaints regarding accounting, internal controls or auditing matters; and

providing other assistance to the Board of Directors, as requested, with respect to our financial, accounting and reporting practices.

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The Audit Committee performs its functions and responsibilities under a written charter adopted by the Board of Directors. A copy of the Audit Committee Charter, as amended and restated by the Board of Directors on April 6, 2009, is available on the Investor Relations section of our website at www.powersecure.com under Corporate Governance. The Audit Committee Report is on page 75 of this proxy statement.

Compensation Committee

Our Board of Directors has established a Compensation Committee. During 2011, the members of the Compensation Committee were John A. (Andy) Miller (Chairman), Anthony D. Pell, Kevin P. Collins and Thomas J. Madden III. The Board of Directors has determined that each member of the Compensation Committee is independent under our Standards of Director Independence and under the current listing standards of The NASDAQ Stock Market. In addition, each member of the Compensation Committee meets the definition of a non-employee director under Section 16b-3 of the Exchange Act, and of an outside director under Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code). The Compensation Committee met 12 times during 2011.

The primary purposes of the Compensation Committee are to review and approve the compensation of our executive officers and to oversee our compensation plans and policies generally. The Compensation Committee's duties and responsibilities include:

reviewing and approving the compensation of our executive officers, including our Chief Executive Officer;

approving employment agreements for executive officers;

reviewing and approving the compensation of directors;

assisting the Board of Directors in administering and recommending changes to our stock and incentive compensation plans and programs;

reviewing and discussing with management the annual Compensation Discussion and Analysis disclosure regarding named executive officer compensation and, based on its review and discussion, recommending whether we include it in our proxy statement for our annual meeting of stockholders; and

preparing the annual Compensation Committee report required by the rules of the SEC to be included in our proxy statement for our annual meeting of stockholders.

The Compensation Committee does not generally delegate any of its authority to other persons, although it has the power to delegate authority to subcommittees. The Compensation Committee has authority under its charter to retain, approve fees for and terminate independent experts, consultants and advisors as it deems necessary to assist in the fulfillment of its responsibilities.

Since 2007, the Compensation Committee has engaged the services of an independent compensation consultant, Frederic W. Cook & Co. (Cook), to assist it in reviewing and designing the compensation program and policies for our named executive officers and for our non-employee directors. The Compensation Committee typically invites Cook to attend meetings where compensation actions are to be discussed and Cook's advice and analysis is expected to be sought. Cook provides the Compensation Committee with advice and reviews management recommendations on executive compensation as appropriate and as requested by the Compensation Committee. Cook from time to time communicates with the Compensation Committee's Chairman outside of Compensation Committee meetings. Cook has not provided any services to us or received any fees from us other than for compensation consulting services rendered to the Compensation Committee. In addition, Cook was selected by and reports directly to the Compensation Committee and not to management. Accordingly, the Compensation Committee believes that Cook is able to provide it with independent advice.

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While the Compensation Committee gives significant weight to the recommendations of our Chief Executive Officer and of Cook, the Compensation Committee is responsible for making the final decisions on executive compensation matters and exercises its discretion and authority in approving, modifying or rejecting these recommendations. Additional information regarding the Compensation Committee's processes and procedures for considering and determining executive officer compensation are contained in the Compensation Discussion and Analysis included below under Executive Compensation.

The Compensation Committee performs its functions and responsibilities under a written charter adopted by the Board of Directors. A copy of the Compensation Committee Charter, as amended and restated by the Board of Directors on April 3, 2012, is available on the Investor Relations section of our website at www.powersecure.com under Corporate Governance. The Compensation Committee Report is on page 58 of this proxy statement.

Nominating and Corporate Governance Committee

The Board of Directors has established a Nominating and Corporate Governance Committee. During 2011, the members of the Nominating and Corporate Governance Committee were Kevin P. Collins (Chairman), Anthony D. Pell, John A. (Andy) Miller and Thomas J. Madden III. The Board of Directors has determined that each member of the Nominating and Corporate Governance Committee is independent under our Standards of Director Independence and under the current listing standards of The NASDAQ Stock Market. The Nominating and Corporate Governance Committee met four times during 2011.

The principal duties of the Nominating and Corporate Governance Committee are:

identifying individuals qualified to become members of the Board of Directors;

recommending qualified individuals for nomination to the Board of Directors;

assessing and advising the Board of Directors with respect to its composition, procedures and committees; and

reviewing and evaluating our Corporate Governance Guidelines and principles and recommending to the Board of Directors any changes that it deems necessary.

Other specific duties and responsibilities of the Nominating and Corporate Governance Committee include:

developing and applying qualifications for Board membership;

monitoring, and recommending to the Board, committee functions;

recommending Board committee assignments;

overseeing our Board of Directors' performance and self-evaluation process; and

reviewing governance-related stockholder proposals and recommending Board responses.

The Nominating and Corporate Governance Committee unanimously recommended the nominees standing for election at the Annual Meeting, which recommendation was unanimously approved by the Board of Directors.

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The Nominating and Corporate Governance Committee performs its functions and responsibilities under a written charter adopted by the Board of Directors. A copy of the Nominating and Corporate Governance Committee Charter, as amended and restated by the Board of Directors on April 6, 2009, is available on the Investor Relations section of our website at www.powersecure.com under Corporate Governance.

Risk Committee

The Board of Directors has established a Risk Committee. The members of the Risk Committee are Thomas J. Madden III (Chairman), Anthony D. Pell, Kevin P. Collins and John A. (Andy) Miller. The Board of Directors has determined that each member of the Risk Committee is independent under our Standards of Director Independence and under the current listing standards of The NASDAQ Stock Market. The Risk Committee met two times during 2011.

The principal duties of the Risk Committee are:

assessing, and providing oversight to management regarding the identification and evaluation of, major financial, business, strategic, operational, contractual, regulatory, information and external risks inherent in our business and operations and the control processes with respect to such risks;

overseeing our risk management, compliance and control activities;

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overseeing the integrity of our systems of operational controls regarding legal and regulatory compliance; and

overseeing our compliance with legal and regulatory requirements, including, without limitation, with respect to the conduct of our business.

The Risk Committee performs its functions and responsibilities under a written charter adopted by the Board of Directors. A copy of the Risk Committee Charter, as adopted by the Board of Directors on March 4, 2010, is available on the Investor Relations section of our website at www.powersecure.com under Corporate Governance.

Board Leadership Structure

Our Corporate Governance Guidelines provide, as our Board of Directors has determined, that at the present time it is in the best interests of our company and our stockholders to separate the roles and offices of the Chairman of the Board from the Chief Executive Officer in recognition of the differences between their roles, with an independent, non-executive director serving as the Chairman of the Board with principal responsibility for leading the Board, thereby allowing our Chief Executive Officer to focus on the day-to-day running of our company. The Board determined that this structure is optimal for us under our current circumstances because it allows Sidney Hinton, our Chief Executive Officer and the only member of the Board who is not an independent director, to devote his full attention and energy to setting and executing the strategic plan for our company and to providing day-to-day management and leadership of our company and our business and affairs, while allowing Anthony D. Pell, our independent Chairman, to lead and direct Board meetings and to facilitate other Board activities and the flow of information between management and directors. Mr. Pell has served as our non-executive Chairman of the Board since October 2008. We believe that this leadership structure enhances the accountability of the Chief Executive Officer to the Board, strengthens the Board's independence from management and provides the appropriate leadership to help ensure effective risk oversight by the Board. In addition, since our Chairman of the Board is an independent director, the Board does not believe it needs a separate lead independent director, as our independent Chairman performs that function.

However, the Board of Directors recognizes, and our Corporate Governance Guidelines acknowledge, that circumstances may change over time. Accordingly, the Board of Directors has not adopted a formal policy requiring us to separate the roles of Chairman of the Board and Chief Executive Officer but rather believes it is important to retain its flexibility to allocate the responsibilities of the offices of the Chairman of the Board and the Chief Executive Officer from time to time in a manner that is in the best interests of our company and our stockholders based upon then prevailing circumstances.

Executive Sessions

Executive sessions of independent directors, without any management directors or other members of management being present, are held at least twice a year, and more often if such directors deem appropriate. The sessions are scheduled and chaired by our non-executive Chairman of the Board. Any independent director can request that additional executive sessions be scheduled.

Director Attendance at Annual Meetings of Stockholders

The Board of Directors expects all directors to attend each Annual Meeting of Stockholders, except where the failure to attend is due to unavoidable or unforeseeable circumstances. All members of the Board of Directors attended the 2011 Annual Meeting of Stockholders.

Nominations of Directors

Identifying and Evaluating Nominees for Director

The Nominating and Corporate Governance Committee uses a variety of methods for identifying and evaluating nominees for director. The Nominating and Corporate Governance Committee regularly assesses the appropriate size and composition of the Board of Directors, the needs of the Board and the respective committees of the Board, and the qualifications of candidates in light of those needs.

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In selecting candidates for nomination at an annual meeting of stockholders, the Nominating and Corporate Governance Committee begins by determining whether the incumbent directors whose terms expire at that meeting desire and are qualified to continue their service on the Board of Directors. The Nominating and Corporate Governance Committee believes that the continuing service of qualified incumbents promotes stability and continuity in the boardroom, giving us the benefit of the familiarity and insight into our affairs that our directors have accumulated during their tenure, while contributing to the Board's ability to work as a collective body. Accordingly, it is the policy of the Nominating and Corporate Governance Committee, absent special circumstances, to nominate qualified incumbent directors who continue to satisfy the criteria for membership on the Board, and who the Nominating and Corporate Governance Committee believes will continue to make important contributions to the Board.

If there are Board positions for which the Nominating and Corporate Governance Committee will not be re-nominating a qualified incumbent, the Nominating and Corporate Governance Committee will consider recommendations for director nominees from a wide variety of sources, including Board members, management, business contacts, professional search firms, stockholders and other appropriate sources. In evaluating such recommendations, the Nominating and Corporate Governance Committee seeks to achieve a balance of knowledge, experience and capability on the Board of Directors and to address the criteria for membership set forth below under *Qualifications of Nominees for Director*. Candidates recommended by the Nominating and Corporate Governance Committee are subject to approval by the Board of Directors.

Upon the recommendation of the Nominating and Corporate Governance Committee, the Board of Directors has authorized an increase in the size of the Board from its current five members to six members effective as of the Annual Meeting. As a result, three persons must be elected as directors at the Annual Meeting to fill all available Board seats. Messrs. Pell and Madden, two of the nominees for election as directors at the Annual Meeting, are currently directors who were unanimously recommended for re-election by the Nominating and Corporate Governance Committee and were unanimously nominated by the full Board of Directors, based upon their qualifications, expertise, skills and upon their prior experience on our Board. In addition, W. Kent Geer, who is also a nominee for election as a director at the Annual Meeting, has not previously served on our Board of Directors but was unanimously recommended for election by the Nominating and Corporate Governance Committee and unanimously nominated by the full Board of Directors, based upon his qualifications, expertise, skills and experience.

Qualifications of Nominees for Director

The Nominating and Corporate Governance Committee is responsible for reviewing with the Board of Directors the requisite qualifications and skills of new director candidates in the context of the current composition of the Board, our operating requirements and the long-term interests of our stockholders. While the Nominating and Corporate Governance Committee has not established specific requirements or policies regarding age, education, years of experience, diversity or specific types of skills for potential candidates, it has established certain criteria and qualifications that candidates for membership on the Board of Directors should possess. However, the Nominating and Corporate Governance Committee does not assign specific weights to particular criteria, and no particular criterion is necessarily applicable to all prospective nominees. Except in limited and exceptional circumstances, each candidate to serve on the Board of Directors should have the following qualifications:

A reputation for high personal and professional integrity, strong moral character and adherence to our high ethical standards and values.

The absence of any conflict of interest (whether due to a business or personal relationship) or legal impediment to, or restriction on, the candidate serving as a director, and no other interests that would materially impair the candidate's ability to (i) exercise independent judgment, or (ii) otherwise discharge the fiduciary duties owed as a director to us and our stockholders.

Holds or has held a recognized position of leadership in the candidate's community or the candidate's field of endeavor, and has demonstrated high levels of achievement in the candidate's community or field.

Business acumen and experience, inquisitiveness, strong analytical skills and the ability to exercise sound business judgment and common sense in matters that relate to our current and long-term objectives.

A general level of expertise and experience in our business areas.

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The ability to read and understand basic financial statements and other financial information pertaining to us.

A commitment to understanding our company and our business, industry and strategic objectives.

The availability and a commitment to devote adequate time to the Board and its committees and the ability to generally fulfill all responsibilities as a member of our Board of Directors, including to regularly attend and participate in meetings of the Board, Board committees and stockholders, in light of the number of other company boards on which the candidate serves and the candidate's other personal and professional commitments.

The willingness and ability to represent fairly and to act in the interests of all of our stockholders rather than the interests of any particular stockholder, special interest group or other constituency.

For prospective non-employee directors, independence under SEC and applicable stock exchange rules and regulations.

The willingness to accept the nomination to serve as a member of our Board of Directors.

The Nominating and Corporate Governance Committee will also consider the following additional factors in connection with its evaluation of each prospective nominee:

Whether the prospective nominee will foster a diversity of skills, experiences and backgrounds on the Board.

Whether the prospective nominee possesses the requisite education, training and experience to qualify as financially literate or as an audit committee financial expert under applicable SEC and stock exchange rules.

For incumbent directors standing for re-election, the incumbent director's performance during his term, including the number of meetings attended, the level of participation, and overall contribution to the Board.

The composition of the Board and whether the prospective nominee will add to or complement the Board's existing strengths. From time to time the Nominating and Corporate Governance Committee may identify certain other skills or attributes as being particularly desirable to help meet specific Board needs that have arisen. While neither our Board nor the Nominating and Corporate Governance Committee has adopted a specific or formal policy on diversity with respect to directors, they both share a commitment to an inclusive culture, endorse equal opportunity principles and practices and seek nominees with a broad diversity of experience, professions, skills, geographic representation and backgrounds. We believe that the backgrounds and qualifications of the members of the Board, considered as a group, should provide a broad mix of experience, knowledge and abilities that will allow the Board to fulfill its responsibilities. The Nominating and Corporate Governance Committee is committed to nondiscrimination on the basis of gender, race, religion, national origin, sexual orientation, disability or any other basis proscribed by law in selecting nominees.

Recommendations and Nominations by Stockholders

The policy of the Nominating and Corporate Governance Committee is to consider properly submitted written nominations from stockholders for nominees for director. In general, persons properly recommended by stockholders as nominees for director are evaluated on the same basis as candidates recommended by other sources. Any stockholder recommendations for consideration by the Nominating and Corporate Governance Committee should include the candidate's name, biographical information, information regarding any relationships between the candidate and us, personal references, a statement of recommendation of the candidate from the stockholder, a description of the shares beneficially owned by the stockholder, a description of all arrangements between the candidate and the recommending stockholder and any other person pursuant to which

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the candidate is being recommended, a written indication of the candidate's willingness to serve on the Board and a written indication to provide such other information as the Nominating and Corporate Governance Committee may reasonably request.

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In addition, our by-laws permit stockholders to nominate directors for consideration at an annual meeting of stockholders. Any such nominations made by stockholders must be submitted in compliance with the requirements for stockholder nominations set forth in our by-laws, which requirements are summarized at the end of this proxy statement under Stockholder Proposals. Nominations by stockholders for director candidates must fully comply with the requirements for stockholder nominations in our by-laws, including our timely receipt of proper notice from the proposing stockholder, and must be addressed to:

PowerSecure International, Inc.

1609 Heritage Commerce Court

Wake Forest, North Carolina 27587

Attention: Investor Relations

A copy of the relevant provisions of our by-laws regarding the requirements for nominating director candidates may be obtained by a stockholder, without charge, upon written request to our secretary at the address above.

Role of the Board in Risk Oversight

Risk is inherent in every business, and we face a number of risks, including operational, financial, legal, regulatory, strategic and reputational risks. While management is responsible for the day-to-day management of the risks we face, the role of our Board of Directors is to engage in the oversight of risk management. In fulfilling its risk oversight responsibility, our Board utilizes the assistance of Board committees in certain areas of risk. The Board's role in the risk oversight process includes receiving regular reports from members of senior management and from Board committees on areas of material risk to us, which enables the Board of Directors to understand our risk identification, assessment and management and our risk mitigation strategies.

Each Board committee considers risk within its areas of responsibilities and keeps the Board regularly informed through committee reports about such risks. The Risk Committee is primarily charged and responsible for overseeing generally this risk oversight process on behalf of the Board, periodically discussing our policies with respect to risk identification, assessment and management as well as risk mitigation strategies, and regularly reporting to the full Board on its risk oversight process. The Audit Committee assists the Board with respect to risk management primarily in the areas of accounting, financial reporting, internal controls and compliance with legal and regulatory requirements. The Compensation Committee assists the Board primarily with respect to the management of risks related to our compensation programs, policies and practices. The Nominating and Corporate Governance Committee assists the Board primarily with respect to the management of risks associated with Board organization, membership and structure and with corporate governance. This allocation of risk oversight responsibilities enables the Board of Directors and its committees to coordinate the risk oversight role. The Risk Committee and the full Board consider our risk profile and focus on the most significant risk factors facing us with the goal of ensuring that all material risks are identified and appropriate risk mitigation measures are implemented.

We believe that the Board's leadership structure, as discussed above, is consistent with the roles of the Board and the Board committees in risk oversight. The Board has found that its current structure, with the separation of the roles of the Chairman of the Board and the Chief Executive Officer, supports the Board's risk oversight activities, because the Chief Executive Officer and other members of senior management have responsibility for the management of risk and our Board, led by our Chairman, provides oversight of that risk management, and because various aspects of risk oversight are allocated among the committees of the Board within their areas of responsibility.

Codes of Ethics

We have adopted two codes of ethics, each designed to encourage our directors, officers and employees to act with the highest level of integrity. These codes are available on the Investor Relations section of our website at www.powersecure.com under Corporate Governance.

We have adopted the PowerSecure International, Inc. Code of Ethics for Principal Executive Officer and Senior Financial Officers, which is a code of ethics that applies to our Chief Executive Officer, Chief Financial Officer, Principal Accounting Officer and other senior finance organization employees. The purpose of this Code of Ethics is to deter wrongdoing and to promote, among other things, honest and ethical conduct and to ensure to the greatest possible extent that our business is conducted in a consistently legal and ethical manner.

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We have also adopted the PowerSecure International, Inc. Code of Business Conduct and Ethics, which is a code of conduct that applies to all of our directors, officers and employees. Under the Code of Business Conduct and Ethics, each officer, director and employee is required to maintain a commitment to high standards of business conduct and ethics. The Code of Business Conduct and Ethics covers many areas of professional conduct, including conflicts of interest, protection of confidential information, and strict adherence to laws and regulations applicable to the conduct of our business. Directors, officers and employees are required to report any conduct that they believe in good faith to be an actual or apparent violation of the Code of Business Conduct and Ethics.

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If we make any amendment to, or grant any waiver from a provision of, either code of conduct with respect to any director, executive officer or senior financial officer, we will disclose the nature of such amendment or waiver on our website, in a Current Report on Form 8-K or both. We also have adopted procedures to receive, retain and treat complaints regarding accounting practices, internal accounting controls or auditing matters and to allow for the confidential and anonymous submission by employees, customers, suppliers, stockholders and other interested persons of concerns regarding those matters.

Compensation Committee Interlocks and Insider Participation

All members of the Compensation Committee are independent directors. No member of the Compensation Committee is or has ever been an officer or employee of us or of any of our subsidiaries, and no member has any relationship required to be disclosed pursuant to Item 404 of Regulation S-K. None of our executive officers serves as a member of the board of directors or of the compensation committee of any other entity that has one or more executive officers serving as a member of our Board of Directors or of our Compensation Committee.

Access to Management and Outside Advisors

Our directors have full and unrestricted access to our management and employees. Additionally, from time to time key members of management attend meetings of the Board of Directors to present information about the results, plans and operations of the business within their areas of responsibility. Our Board of Directors and its committees have the right to retain outside advisors and consultants of their choosing at our expense, without the consent or approval of management.

Board and Committee Effectiveness

We believe it is important that the Board of Directors and all of its committees are performing effectively and in the best interests of our company and our stockholders. Our Board of Directors and each of its committees perform an annual self-assessment, led by its Chairman, to evaluate its effectiveness in fulfilling its obligations.

Stock Ownership Guidelines

Our Board of Directors has adopted stock ownership guidelines for our directors, officers and certain key employees. These stock ownership guidelines are discussed below in this proxy statement under Executive Compensation Compensation Discussion and Analysis Stock Ownership Guidelines. We believe these guidelines are consistent with our culture, which encourages a spirit and responsibility of ownership, including through the ownership of an equity interest in our company, and help align the interests of our directors, officers and key employees with our stockholders.

Communications with the Board of Directors

While the Board believes that management speaks for our company, any stockholder who wishes to communicate directly with the Board of Directors, any committee of the Board or any individual director may do so by directing a written request addressed to such director or directors as follows:

PowerSecure International, Inc.

1609 Heritage Commerce Court

Wake Forest, North Carolina 27587

Attention: Investor Relations

Communications directed to members of the Board will be forwarded to the intended Board members, unless such communications are deemed (i) advertisements or promotional, (ii) clearly unrelated to our business or to Board or committee matters, or (iii) unduly hostile, threatening, illegal or otherwise unnecessary or inappropriate to forward.

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Availability of Corporate Governance Documents

Our Corporate Governance Guidelines, Board committee charters and codes of ethics are available on the Investor Relations section of our website at www.powersecure.com under Corporate Governance. In addition, we will provide a copy of any of these corporate governance documents without charge upon written request addressed to us at our principal executive offices as set forth above under -Communications with the Board of Directors.

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PROPOSAL 1

ELECTION OF DIRECTORS

The Board of Directors, which currently consists of five members, will be increased to six members at the Annual Meeting. Under our Second Restated Certificate of Incorporation, the Board is divided into three classes, designated as Class I, Class II and Class III, and members of each class serve staggered three year terms. The number of directors in each class is fixed to be as equal as possible, depending on the total number of members of the Board. Each director serves in office until the expiration of his term and until his successor is duly elected and qualified.

The terms of the two Class III directors, Anthony D. Pell and Thomas J. Madden, expire at the Annual Meeting. In addition, because the size of the Board will increase by one director at the Annual Meeting and in order to maintain equal class sizes, there will be a vacancy of one director in Class I at the Annual Meeting. As a result, one Class I director and two Class III directors will be elected at the Annual Meeting. The Class I director will serve for a term of one year and until his successor is duly elected and qualified. Each Class III director will serve for a term of three years and until his successor is duly elected and qualified. In order to facilitate making the class sizes equal, Mr. Pell, who is currently a member of Class III, has volunteered to stand for re-election at the Annual Meeting as a Class I director. Mr. Madden, who is currently serving on our Board of Directors, and W. Kent Geer, who has not served on our Board, are nominated to serve as Class III directors.

Accordingly, upon the unanimous recommendation of the Nominating and Corporate Governance Committee, the Board of Directors has unanimously nominated the following persons to be elected as directors at the Annual Meeting:

Anthony D. Pell, to serve as a Class I director for a term of one year,

Thomas J. Madden, to serve as a Class III director for a term of three years, and

W. Kent Geer, to serve as a Class III director for a term of three years.

All other current members of our Board of Directors will continue in office until the expiration of their respective terms, as indicated below, and until their respective successors are duly elected and qualified.

Each of the nominees has agreed to serve as a director if elected by the stockholders at the Annual Meeting. The Board of Directors has no reason to believe that any nominee will be unable to serve. However, if any nominee should become unexpectedly unable to serve as a director, then the persons appointed as proxies in the accompanying proxy card intend to vote for such other nominee or nominees as the Board of Directors may designate, upon the recommendation of the Nominating and Corporate Governance Committee, unless the size of the Board is reduced by the Board of Directors.

Set forth below is information as of the date of this proxy statement about the nominees and the continuing directors. In addition to the information presented below regarding the specific experience, qualifications, attributes and skills of each nominee and of each continuing director that led our Nominating and Corporate Governance Committee and our Board of Directors to conclude that such person should serve as a director, we also believe that each nominee and each continuing director has demonstrated a high level of leadership experience, business acumen, integrity and honesty, and an ability to exercise sound judgment and deal with complex problems, as well as a commitment of service to our company and our Board. Our Board of Directors and the Nominating and Corporate Governance Committee believe that these skills and qualifications, combined with the diverse backgrounds, experience, expertise and perspectives of our directors, contribute to robust and productive discussions in the boardroom and the ability of the Board to work in a positive and collegial fashion that benefits our company and our stockholders by creating a strong and effective Board of Directors. The Nominating and Corporate Governance Committee regularly reviews the composition of the Board in light of our evolving business requirements and its assessment of the Board's performance to ensure that the Board has the appropriate mix of skills and experiences needed for the broad set of challenges that it confronts and the responsibilities it has. Based on all of these qualifications, the Board of Directors believes that each of the nominees and each of the continuing directors has the appropriate set of skills and qualifications to serve as members of the Board and to benefit our company and our stockholders as Board members.

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Nominees

Class I Term Expires in 2013

Anthony D. Pell, 73, has served on our Board of Directors since June 1994, serving as the Chairman of the Board since October 2008. Mr. Pell also serves as the Chairman of the Audit Committee and as a member of the other Board committees. He was the President, Chief Executive Officer and a co-owner of Pelican Investment Management, an investment advisory firm that he co-founded in November 2001, until March 2011 when it was acquired by Eaton Vance Investment Counsel, an investment management firm, and since such time has served as a Senior Fiduciary Advisor of Eaton Vance. He was the President and a co-owner of Pell, Rudman & Co., an investment advisory firm, from 1981 until 1993, when it was acquired by United Asset Management Company, where he continued to serve as an employee until June 1995. Mr. Pell was a director of Metretek, Incorporated, a former subsidiary of our company, until it was acquired by us in March 1994. He was associated with the law firm of Coudert Brothers from 1966 to 1968 and with the law firm of Cadwalder, Wickersham and Taft from 1968 to 1972, specializing in estate and tax planning. In 1972, Mr. Pell joined Boston Company Financial Strategies, Inc. as a Vice President and was appointed a Senior Vice President in 1975.

Mr. Pell brings to the Board more than 35 years of experience and expertise in the field of financial and investment advice, a deep background in public company strategy, acquisitions, financings and operations, extensive business organizational and planning skills, sophisticated business acumen in a broad diversity of businesses especially in the energy and technology industries, and strong management and leadership abilities. Our Board of Directors believes Mr. Pell's broad range and depth of skills, experience and expertise, and his 18 years of service on our Board, qualify him to continue to serve as the Chairman of the Board and constitute valuable resources that benefit our Board.

Class III Term Expires in 2015

Thomas J. Madden III, 64, has served on our Board of Directors since December 2008. Mr. Madden also serves as the Chairman of the Risk Committee and as a member of the other Board committees. In 1991, he joined ScottMadden, Inc., a consulting firm dedicated to the utility and telecommunications industry, where he served as its Chief Executive Officer until 1998 and as its Chairman from 2000 until 2003, and where he has served on its Board of Directors since 1991 and as Of Counsel since 2003. Mr. Madden has also served as a director of A.P. Services, Inc., an international supplier of mechanical packing, gaskets and seals, since December 2010. From 1978 until 1991, Mr. Madden was a consultant with Theodore Barry & Associates, a consulting firm dedicated to serving the utility and energy industry, holding various executive positions including Chief Executive Officer. From 1974 until 1978, he was employed by Jersey Central Power & Light, a gas and electric utility, where he became head of the nuclear licensing group. From 1970 until 1974, he was a member of the technical staff of Bell Telephone Laboratories, modeling nuclear weapons effects for the development of the American anti-ballistic missile defense system.

Mr. Madden brings to our Board over 30 years of experience as a leader with strong business experience, a manager and an advisor of management consulting firms in the electric, gas and telecommunications industries along with extensive knowledge and understanding of our industry and sophisticated expertise in the energy field. Our Board of Directors believes Mr. Madden's skills, experience and expertise as a business leader and as an expert in the field of energy, as well as his prior service on our Board, provide valuable contributions that benefit, and qualify him to continue to serve on, our Board.

W. Kent Geer, 57, has been nominated to join our Board of Directors at the Annual Meeting. Mr. Geer served in the audit practice of Ernst & Young, LLP from 1977 until 2011, including as a partner since 1989. During his 34 year career at Ernst & Young, he served as lead audit partner for a large number of public and private companies in different industries including telecommunications, software, biotechnology, semi-conductors, distribution and various other product and service companies. He serves as audit practice leader for the Ernst & Young Entrepreneurial Services Group in Raleigh, North Carolina, the market team leader for the technology industry practice of the Carolinas area, and the partner in charge for the Carolinas Ernst & Young Entrepreneur of the Year program.

Mr. Geer will bring to our Board nearly 35 years of expertise and experience as an advisor to many public and private company boards, board committees and management teams in a diversity of industries as well as serving as an advisor to businesses on large transactions including a variety of financing and capital raising transactions as well as merger and acquisition transactions. He holds extensive expertise in the fields of accounting, auditing and financial matters, and he has a broad range of experience in corporate development and organizational acumen. Our Board of Directors believes Mr. Geer's skills, experiences and expertise, especially his diverse experience working with other public company boards and management teams and his expertise in accounting and audit matters, make him well qualified to join and serve on and to enhance the strengths of our Board.

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Continuing Directors

Class I Term Expires in 2013

Sidney Hinton, 49, has served as our President and Chief Executive Officer since April 2007, and has served as the President, Chief Executive Officer and a director of PowerSecure, Inc., our largest subsidiary, since its incorporation in September 2000. In 2000, he was an Executive-in-Residence with Carousel Capital, a private equity firm. In 1999, Mr. Hinton was the Vice President of Market Planning and Research for Carolina Power & Light (now known as Progress Energy). From August 1997 until December 1998, he was the President and Chief Executive Officer of IllumElex Lighting Company, a national lighting company. From 1982 until 1997, Mr. Hinton was employed in several positions with Southern Company and Georgia Power Company.

As the founder and driving force behind the formation, development and growth of our core PowerSecure business and as the leader of all of our business units, our Board of Directors believes Mr. Hinton is uniquely and well qualified to serve on our Board as its only management member. He brings to our Board an extensive and valuable understanding of our business and of the markets and customers we serve and the products and services we provide as well as strong leadership of our company. In addition, Mr. Hinton brings to the Board 30 years of experience in the energy industry, serving as a leader and manager and with extensive relationships and contacts in the energy business especially within the utility segment. Our Board greatly benefits from the valuable experience, expertise, leadership and guidance that Mr. Hinton provides to the Board and to our company.

Class II Term Expires in 2014

Kevin P. Collins, 61, has served on our Board of Directors since March 2000. Mr. Collins also serves as the Chairman of the Nominating and Corporate Governance Committee and as a member of the other Board committees. He has been a Managing Member of The Old Hill Company LLC, which provides corporate financial and advisory services, since 1997. From 1992 to 1997, he served as a principal of JHP Enterprises, Ltd., and from 1985 to 1992 he served as Senior Vice President of DG Investment Bank, Ltd., both of which were engaged in providing corporate finance and advisory services. Mr. Collins has served as a director of the following public companies: Key Energy Services, Inc., an oilfield service provider, since 1996; Applied Natural Gas Fuels, Inc., a liquefied natural gas provider, since November 2008; and The Penn Traffic Company, a food retailer, from 1999 to 2010. He has also served as a director of The Antioch Company LLC, a privately held direct sales company, since 2009. Mr. Collins is a CFA Charterholder.

Mr. Collins brings to our Board 28 years of experience as a financial advisor with experience over that time serving as a member of many public and private company boards and board committees in a diversity of industries as well as serving as an advisor and consultant to many growing businesses. He holds extensive expertise in the fields of corporate governance, executive compensation and audit committee matters, and he has a broad range of experience in corporate strategy development and organizational acumen. Our Board of Directors believes Mr. Collins' skills, experiences and expertise, especially his diverse experience on other public company boards and his expertise on corporate governance, compensation and audit matters, as well as his 12 years of service on our Board, qualify him to serve on and to enhance the strengths of our Board.

John A. (Andy) Miller, 69, has served on our Board of Directors since September 2007. Mr. Miller also serves as the Chairman of the Compensation Committee and as a member of the other Board committees. He is the founder, Chairman and Chief Executive Officer of Miller Consulting Group, Boston, Massachusetts, a corporate and market positioning firm specializing in the information technology and financial services sectors. In 1977, he founded Miller Communications, one of the first firms to specialize in public relations for the IT industry. Prior to founding Miller Communications, Mr. Miller served in various capacities at Little, Brown & Co. and the Associated Press, and as Associate Editor of *The Harvard Business Review*. He currently serves on the Advisory Boards of Internet Capital Group, Azima, iMotions, Cymtec and Helium, Inc. He has also served as Adjunct Member of the Governor's Committee on Telecom Policy for the State of Massachusetts, known as Mass Telecom, an early member of the Massachusetts Software Council, and Trustee of the Computer Museum.

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Mr. Miller brings to our Board more than 35 years of experience in the marketing and public relations industry with a focus on technology companies and with extensive sales and marketing expertise, as well as valuable experience and expertise in strategic planning and strong management and leadership skills. Our Board of Directors believes Mr. Miller's skills, experiences and expertise, especially his understanding of technology and growth companies and strategic planning, as well as his prior service on our Board, qualify him to continue to serve on and provide valuable contributions to our Board.

Vote Required

The three nominees receiving the highest number of affirmative **FOR** votes cast by the holders of the shares of our common stock present, in person or by proxy, and entitled to vote at the Annual Meeting will be elected as directors.

Recommendation

Our Board of Directors unanimously recommends that stockholders vote **FOR the election of Anthony D. Pell, Thomas J. Madden III and W. Kent Geer as directors. Proxy cards properly signed and returned to us at or prior to the Annual Meeting will be so voted, unless contrary instructions are specified.**

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PROPOSAL 2

APPROVAL OF THE AMENDMENT AND RESTATEMENT OF OUR 2008 STOCK INCENTIVE PLAN

We are asking our stockholders to adopt and approve the amendment and restatement of the PowerSecure International, Inc. 2008 Stock Incentive Plan (the "2008 Stock Plan"), in order to:

increase the number of shares of common stock that we may issue under the 2008 Stock Plan by 1,400,000 shares to a total of 2,000,000 shares;

change the number of shares that are deemed to be granted under the 2008 Stock Plan in settlement of any full-value award to 1.0;

change certain limits on awards commensurate with increasing the size of the 2008 Stock Plan;

require awards granted under the 2008 Stock Plan to be subject to our clawback policy, as in effect from time to time;

add certain potential performance goals, and modify requirements relating thereto, for purposes of performance awards under the 2008 Stock Plan;

extend the term of the 2008 Stock Plan such that awards may be granted thereunder until 10 years after the date of the Annual Meeting, unless it is earlier terminated by the Board; and

make certain other changes to conform with best practices for equity plans, such as prohibiting the distribution of dividends or dividend equivalents on equity awards that do not vest or are not earned.

In addition, re-approval of the 2008 Stock Plan by our stockholders at the Annual Meeting is necessary in order to refresh the stockholder approval requirement for full tax deductibility by us under Section 162(m) of the U.S. Internal Revenue Code of 1986, as amended (the "Code").

The Board of Directors believes that amending and restating the 2008 Stock Plan is in the best interests of our company and our stockholders, because of the importance of being able to continue to grant appropriate equity awards as a valuable tool to help attract, retain, motivate and reward our directors, officers, employees and other representatives. Accordingly, the Board of Directors, upon the recommendation of the Compensation Committee, has unanimously approved, and recommends that our stockholders adopt and approve, the proposed amendment and restatement of the 2008 Stock Plan.

This Proposal 2, approval of the amendment and restatement of our 2008 Stock Plan, is not dependent or contingent upon approval of Proposal 3, the adoption and approval of the proposed amendment to our Second Restated Certificate of Incorporation to increase the number of authorized shares.

Background

The 2008 Stock Plan was adopted by our Board of Directors in April 2008, upon the recommendation of the Compensation Committee, and was approved by our stockholders in June 2008. The 2008 Stock Plan authorizes the Board of Directors, which has delegated its authority under the 2008 Stock Plan to the Compensation Committee, to grant non-qualified stock options ("NQSOs"), incentive stock options ("ISOs"), stock appreciation rights ("SARs"), restricted stock awards, performance awards, and other stock-based awards to officers, directors, employees, consultants and advisors of us and our subsidiaries. The 2008 Stock Plan is our only active plan for providing equity incentives to such persons.

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The Board of Directors and the Compensation Committee strongly believe that the 2008 Stock Plan is a critical component of our overall compensation program and essential to our continued success. The purpose of the 2008 Stock Plan is to assist us to successfully attract, retain, reward and motivate the best available officers, directors, employees, advisors and consultants by providing them with an equity interest in our company in order to align their interests with the interests of our stockholders and to provide such persons with incentives to pursue the long-term growth, profitability and financial success of our company and to increase stockholder value. The 2008 Stock Plan is also designed to allow us to take a full federal income tax deduction for the compensation paid to our executive officers in connection with certain awards granted under the 2008 Stock Plan.

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As originally adopted, a total of 600,000 shares of our common stock were reserved for issuance under the 2008 Stock Plan. As of April 23, 2012, under the current share counting formula, only shares of our common stock remain available for issuance under the 2008 Stock Plan pursuant to future awards, not including any shares that might in the future be returned to the 2008 Stock Plan as a result of awards expiring, being forfeited or otherwise terminating. As of the date of this proxy statement, all awards under the 2008 Stock Plan have been grants of either stock options or restricted stock. If the amendment and restatement of our 2008 Stock Plan is not approved by our stockholders, we anticipate that we will exhaust all of the shares available for issuance under the 2008 Stock Plan during 2012.

In addition, as of April 23, 2012, an aggregate of shares of common stock were subject to outstanding awards granted under the PowerSecure International, Inc. 1998 Stock Incentive Plan, as amended and restated, referred to as the 1998 Stock Plan. The 1998 Stock Plan was replaced by the 2008 Stock Plan, and no additional awards can be granted under the 1998 Stock Plan.

On April 23, 2012, the last reported sale price of our common stock as reported on The NASDAQ Global Select Market was \$ per share.

Proposed Amendments

On April 3, 2012, upon the recommendation of the Compensation Committee, the Board of Directors adopted, subject to stockholder approval, and is recommending that stockholders adopt and approve at the Annual Meeting, the amendment and restatement of the 2008 Stock Plan. The Board of Directors believes that the amendments set forth in the Amended and Restated Stock Plan are important to allow us to continue to meet the goals of our overall compensation program and are necessary to help drive our continued success.

Under the amendment and restatement of the 2008 Stock Plan, the number of shares of our common stock authorized for issuance under the 2008 Stock Plan would be increased by 1,400,000 shares to a total of 2,000,000 shares.

In addition, the amendment and restatement of the 2008 Stock Plan would change the counting of full value awards, such as awards of restricted stock and restricted stock units, so that each full value award counts against and reduces the number of shares available for issuance under the 2008 Stock Plan on the basis of one share for each share covered by the full value award. This change in ratio will provide us with more flexibility in our use of the shares authorized for issuance under the 2008 Stock Plan. Certain other provisions of the 2008 Stock Plan would be amended to conform to this change.

We are also proposing to increase the limit for the number of incentive stock options that can be issued under the 2008 Stock Plan from 500,000 to 1,750,000, in light of and commensurate with the proposed increase in the total number of shares that we can issue under the 2008 Stock Plan.

The amended and restated 2008 Stock Plan would expressly provide that each award granted under the 2008 Stock Plan is subject to our clawback policy, as in effect from time to time, in order to facilitate compliance with that important compensation policy.

We are also requesting that stockholders approve a proposed amendment to extend the term of the 2008 Stock Plan, which is currently set to expire on the tenth anniversary of the stockholder approval of the original 2008 Stock Plan, until the tenth anniversary of the stockholder approval thereof at the Annual Meeting. Accordingly, under the amended and restated 2008 Stock Plan, awards could be granted until June 23, 2022.

We have also proposed certain other minor changes to the 2008 Stock Plan to conform the plan to the foregoing amendments and to current best stock plan practices, such as prohibiting the distribution of dividends or dividend equivalents on equity awards that do not vest or are not earned.

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We are also requesting that our stockholders re-approve the 2008 Stock Plan, as amended and restated, for purposes of refreshing our stockholder approval as required by Section 162(m) of the Code, so that we may continue to grant performance-based awards to our named executive officers that are intended to be tax efficient for us. As described below under - Summary of Federal Income Tax Consequences-Section 162(m), Section 162(m) of the Code limits the tax deductibility to us of compensation paid to certain covered persons (as defined in Section 162(m) of the Code) in excess of \$1 million unless the compensation satisfies the elements of the performance-based compensation exemption. One element of the performance-based compensation exemption under Section 162(m) of the Code is that stockholders must approve the material terms of the performance goals applicable to awards intended to qualify as performance-based compensation no less than every five years. Stockholder approval of the amendment and restatement of the 2008 Stock Plan will also be deemed to be approval of the material terms of the performance goals under the 2008 Stock Plan for purposes of Section 162(m) of the Code.

The proposed amendment and restatement of the 2008 Stock Plan will become effective immediately upon stockholder approval at the Annual Meeting. No grants or awards will be made with respect to the additional shares that will be authorized under the amendment and restatement of the 2008 Stock Plan unless and until stockholders approve the amendment and restatement. If stockholders do not approve the proposed amendment and restatement of the 2008 Stock Plan, then the proposed amendments will not become effective and the 2008 Stock Plan will continue in effect after the Annual Meeting as currently in effect without any amendments.

Key Features Designed to Promote Corporate Governance and Protect Stockholders' Interests

The design of the 2008 Stock Plan, as proposed to be amended and restated, reflects our commitment to strong corporate governance and our desire to preserve stockholder value as demonstrated by the following features:

Administration by Independent Directors. The 2008 Stock Plan is administered by the Compensation Committee, which is comprised entirely of independent directors.

No Discounted Options or SARs. Stock options and stock appreciation rights may not be granted with exercise prices lower than the fair market value of the underlying shares on the date the award is granted.

No Repricing Without Stockholder Approval. We cannot, without stockholder approval, reprice awards, such as stock options or stock appreciation rights, by reducing the exercise price of such awards, or exchange such awards for cash, other awards or new stock options or new stock appreciation rights that have a reduced exercise price.

Responsible Share Counting. Shares used to pay the exercise price of an award or withholding taxes in connection with an award, and unissued shares resulting from the settlement of stock appreciation rights in shares, will not become available for future issuance under the 2008 Stock Plan.

No Dividends or Dividend Equivalents on Unvested or Unearned Awards. The 2008 Stock Plan prohibits the distribution of dividends or dividend equivalents on shares underlying awards that do not ultimately vest due to service or the attainment of specified performance goals.

Minimum Vesting Period. Virtually all full value awards granted under the 2008 Stock Plan are subject to vesting over a period of not less than (i) three years following the grant date of the award if it vests based solely on employment or service with us, or (ii) one year measured from the commencement of the period over which performance is evaluated for full value awards that are issued or vest based upon the attainment of performance goals or other performance-based objectives.

No Tax Gross-Ups. The 2008 Stock Plan does not provide for any tax gross-ups.

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Award Design Flexibility. Different kinds of awards may be granted under the 2008 Stock Plan, giving the Compensation Committee the flexibility to design our equity incentives to complement the other elements of compensation and to support our attainment of strategic goals.

Performance-Based Awards. The 2008 Stock Plan permits the grant of performance-based stock awards that are payable upon the attainment of specified performance goals.

No Liberal Definition of Change in Control. The 2008 Stock Plan's definition of a change in control transaction provides that any award benefits triggered by such a transaction are contingent upon the actual consummation of the transaction, not merely its approval by our Board or stockholders.

Deductibility of Awards. The Plan includes provisions intended to meet the requirements for deductibility of executive compensation under Section 162(m) of the Code, including by qualifying payments under the 2008 Stock Plan as performance-based compensation.

Awards Subject to Clawback Policy. Awards made under the 2008 Stock Plan are subject to recoupment by us in the event of financial statement restatements, in accordance with our compensation clawback policy as in effect from time to time.

Table of Contents**Annual Share Usage**

The Board of Directors and the Compensation Committee periodically review our equity program to ensure that we are balancing our goal to include the use of equity in our compensation programs to attract and motivate our employees with our interest and our stockholders' interest in limiting dilution from our equity plans. The following table provides information on our annual share usage under the 2008 Stock Plan since 2009:

Run Rate Table

	2009	2010	2011	3-Year Average
Stock options granted	42,500	81,000	20,000	47,833
Shares of restricted stock granted (1)	43,012	20,920	29,544	31,159
Weighted average fully diluted common shares outstanding	17,342,814	18,602,775	19,138,974	18,361,521
Gross run rate (2)	0.49%	0.55%	0.26%	0.43%
Equity awards made to named executive officers (as a percentage of equity awards granted under the 2008 Stock Plan)	0.00%	0.00%	20.18%	4.22%

- (1) Based on the actual number of restricted shares granted, not the current 1.5 share per restricted share counting formula for full value awards for purposes of computing the share limit under the 2008 Stock Plan.
- (2) Gross run rate is calculated as (a) all shares granted as stock options or restricted stock, divided by (b) the weighted average fully diluted common shares outstanding.

Summary of the 2008 Stock Plan

The principal features of the 2008 Stock Plan, as proposed to be amended and restated, are summarized below. The following summary does not purport to be complete and is qualified in its entirety by reference to the full text of the PowerSecure International, Inc. 2008 Stock Incentive Plan, as proposed to be amended and restated, which is attached to this proxy statement as [Appendix A](#).

Purpose. The purpose of the 2008 Stock Plan is to attract, retain, reward and motivate the best available officers, directors, employees, advisors and consultants by providing them with an equity interest in order to align their interests with those of our stockholders and providing such persons with incentives to promote our long-term growth and profitability and the success of our business and to enhance stockholder value. These incentives may be provided through the grant of stock options (including indexed options), stock appreciation rights, restricted stock purchase rights, restricted stock bonuses, restricted stock units, performance shares, and performance units. The 2008 Stock Plan is also designed to permit us to make cash- and equity-based awards intended to qualify as performance-based compensation under Section 162(m) of the Code.

Shares Available for Issuance. As originally adopted, a total of 600,000 shares of our common stock were reserved for issuance under the 2008 Stock Plan, of which only 73,448 shares remained available for issuance in future awards as of April 23, 2012, based on the current share counting formula under the 2008 Stock Plan. If stockholders approve the amendment and restatement of the 2008 Stock Plan, an additional 1,400,000 shares, which in the aggregate will be a total of 2,000,000 shares, of our common stock will be reserved for issuance under the 2008 Stock Plan, of which a total of shares of common stock will be available for issuance under future awards. These amounts are subject to adjustment for certain changes in our capital structure. The shares of common stock issuable under the 2008 Stock Plan may be authorized and unissued shares or treasury shares, including shares repurchased by us in the open market.

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If the amendment and restatement of the 2008 Stock Plan is approved, then the grant or settlement of a full value award, which is any award for which the participant does not pay the intrinsic value of the award, such as restricted stock awards, performance awards, restricted stock bonus awards, restricted stock purchase rights, restricted stock units, performance shares or performance units settled in shares, will be counted against the 2008 Stock Plan's share reserve on a one for one basis. Under the 2008 Stock Plan as currently in effect, each share issued or issuable under a full value award is counted against the 2008 Stock Plan's share reserve on a one-and-one half (1.5) for one basis. Accordingly, if the amendment and restatement is adopted, the number of shares of common stock available for issuance under the 2008 Stock Plan will be reduced by one share for each share delivered in the grant or settlement of any full value award. This change in ratio will provide us with more flexibility in our use of full value awards. The amendment and restatement will not change the counting of awards other than full value awards under the 2008 Stock Plan, such as stock options and stock appreciation rights. The number of shares available for issuance under the 2008 Stock Plan is, and if the amendment and restatement is approved will continue to be, reduced by one share for each share issued upon exercise or settlement of all awards that are not full value awards. If an award (whether or not a full value award) expires, lapses or is otherwise cancelled, forfeited, settled in cash or otherwise terminated before delivery of all or some of the shares subject to such award, then the number of shares available for issuance under the 2008 Stock Plan will be increased by one share under the amendment and restatement, as compared to 1.5 shares currently for each share subject to a full value award.

The 2008 Stock Plan counts shares on a gross basis and does not allow the re-grant of shares withheld or surrendered in payment of the exercise price or tax withholding obligations of an award. To the extent permitted by applicable law or any stock exchange rule, shares issued or issuable in connection with any award issued in substitution for any outstanding award of any entity acquired in any form of combination by us or our subsidiaries will not be counted against the shares available for issuance under the 2008 Stock Plan.

Administration. The 2008 Stock Plan is administered by the Compensation Committee, the members of which are appointed by our Board of Directors. The 2008 Stock Plan can be administered by the Board or by another committee properly appointed by our Board of Directors, if our Board so decides in the future, although it has no present plans to do so. The Compensation Committee is comprised of four non-employee directors. Each member of the Compensation Committee is independent and meets the definition of a non-employee director under Section 16(b) of the Exchange Act and meet the definition of an outside director under Section 162(m) of the Code. The members of the Board and of the Compensation Committee are eligible for, and have received, awards under the 2008 Stock Plan.

The Compensation Committee is authorized to designate which participants will receive awards, determine the type and number of awards to be granted, set the terms, conditions and provisions of awards (including the exercise price, the exercisability and vesting and the form of consideration payable upon exercise of awards), cancel awards, prescribe forms of award agreements, interpret the 2008 Stock Plan, establish, amend and rescind rules and regulations related to the 2008 Stock Plan, and make all other determinations which may be necessary or advisable to the administration of the 2008 Stock Plan or the grant of awards under the 2008 Stock Plan, subject to the terms and conditions of the 2008 Stock Plan. The Board or the Compensation Committee may, to the extent permitted by applicable law, delegate the authority to grant or amend awards to one or more of our officers or non-employee directors. Any such officer or non-employee director will not be delegated the authority to grant awards to our officers.

Eligibility. The officers, directors, employees, consultants and advisers of our company and of our existing or future subsidiaries are eligible to receive awards under the 2008 Stock Plan. All of our approximately 490 employees, all four of our current non-employee directors, and in general our advisors and consultants are eligible to receive awards under the 2008 Stock Plan. However, only our employees are eligible to receive awards of incentive stock options under the 2008 Stock Plan. Through April 23, 2012, awards under the 2008 Stock Plan had been granted to 69 employees, including one of our named executive officers, and to all four non-employee directors.

Limitations on Grants of Awards. During any calendar year, the maximum number of shares that can be granted to any individual participant subject to awards under the 2008 Stock Plan is 500,000 shares, and the maximum amount of cash payable under awards, even performance-based awards, to any individual participant is \$2.5 million. In addition, the maximum number of shares that can be issued upon exercise of incentive stock options awarded under the 2008 Stock Plan is 1,750,000.

Prohibition on Repricing Stock Options and Stock Appreciation Rights. The 2008 Stock Plan prohibits the direct or indirect repricing of outstanding stock options or stock appreciation rights granted under the 2008 Stock Plan, without stockholder approval. For example, the exercise price of stock options or the base price of stock appreciation rights outstanding under the 2008 Stock Plan are not permitted to be reduced, outstanding stock options and stock appreciation rights are not permitted to be exchanged for stock options or stock appreciation rights with a lower exercise or base price, and underwater stock options and stock appreciation rights are not permitted to be exchanged for cash, shares, other property or other awards, without stockholder approval.

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Awards. Under the terms and conditions of the 2008 Stock Plan, the Compensation Committee may grant or issue stock options, stock appreciation rights, restricted stock, restricted stock units, deferred stock, dividend equivalents, performance awards and other stock-based compensation awards or any combination thereof to our officers, directors, employees, consultants and advisors. Each award is evidenced by a separate agreement with the grantee of the award and will indicate the type, terms and conditions of the award. To date, only stock options and restricted stock awards have been granted under the 2008 Stock Plan.

Stock Options. Under the 2008 Stock Plan, stock options can be either incentive stock options or non-qualified stock options. A stock option is the right to purchase shares of our common stock at a fixed exercise price for a fixed period of time. The Compensation Committee determines the number of shares that can be exercised under a stock option. In addition, the exercise price of stock options is determined by the Compensation Committee but may not be less than the fair market value of our common stock on the date of grant (or 110% of the fair market value in the case of an incentive stock option granted to an employee beneficially owning more than 10% of our outstanding common stock). The Compensation Committee may grant non-qualified stock options to any eligible participant, but may grant incentive stock options only to employees.

Stock options become exercisable and vest at such time or times *or* upon such events and subject to such terms, conditions, performance criteria or restrictions in whole or in part as determined by the Compensation Committee, except that stock options may not be exercised later than 10 years after the date of grant (5 years after grant in the case of an incentive stock option granted to an employee beneficially owning more than 10% of our outstanding common stock). The aggregate fair market value of the shares (determined on the grant date) covered by incentive stock options that first become exercisable by any participant during any calendar year also may not exceed \$100,000. Stock options may be exercised by payment of the exercise price in cash, shares of our common stock, cashless exercise, exchange of outstanding awards or other property, netting of option shares, by any such other lawful consideration as approved by the Compensation Committee or in any combination of those methods having a fair market value equal to the exercise price, as the Compensation Committee determines. Stock options are generally not transferable by an optionee other than by will or the laws of descent and distribution, and may be exercised during the optionee's lifetime only by the optionee.

Stock Appreciation Rights. Stock appreciation rights, which can be granted either alone or in tandem with underlying stock options, entitle the participant to receive, upon exercise, an amount of cash or shares or some combination of both, as determined by the Compensation Committee, equal in value to the excess, if any, of the fair market value of the shares covered by the stock appreciation right on the date of exercise over the base price of the stock appreciation right. The base price for any stock appreciation rights is fixed by the Compensation Committee but may not be less than the fair market value of our common stock on the date of grant. Stock appreciation rights will be exercisable at such time or times and under such other terms and conditions as determined by the Compensation Committee, except that stock appreciation rights may not be exercised later than 10 years from the date of grant and that a tandem stock appreciation right is exercisable only at the time and to the same extent that the related option is exercisable, and its exercise causes the related option to be canceled. No stock appreciation rights have been granted under the 2008 Stock Plan. Stock appreciation rights are generally not transferable by a participant other than by will or the laws of descent and distribution, and may be exercised during the participant's lifetime only by the participant.

Restricted Stock. An award of restricted stock is an award of shares of common stock that vests in accordance with such terms and conditions, and is subject to such restrictions, as the Compensation Committee determines. The terms, conditions and restrictions applicable to an award of restricted stock may be based on service conditions, performance goals, other conditions or a combination of all of those as the Compensation Committee determines to be appropriate. The restricted stock vests and may be disposed of by the participant only in accordance with those terms and conditions and after such restrictions lapse in whole or in installments as the Compensation Committee determines. Restricted stock awards may be subject to forfeiture if, for example, the participant's employment terminates before the award vests. A participant receiving restricted stock has all the rights of a stockholder, including the right to vote the shares and the right to receive any dividends, unless the Compensation Committee otherwise determines.

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Restricted Stock Units. A restricted stock unit is the right to receive a share of common stock upon the completion of a vesting period. The Compensation Committee determines the terms and conditions, including vesting, of restricted stock units. As with awards of restricted stock, restricted stock units vest in accordance with terms and conditions, and are subject to such restrictions, as the Compensation Committee determines, and those terms, conditions and restrictions may be based on service conditions, performance goals, other conditions or a combination of all of those as the Compensation Committee determines to be appropriate. However, unlike an award of restricted stock, a participant receiving restricted stock units has no rights of a stockholder until the restricted stock unit vests and the shares are issued. No monetary payment is required to be made by the participant to receive either the restricted stock units or the shares issued in settlement of the award, the consideration for which is furnished in the form of the participant's service to us.

Deferred Stock. Deferred stock awards, are awards generally consisting of a right to receive shares of our common stock at the end of specified deferral periods. Awards of deferred stock are subject to such conditions or limitations as the Compensation Committee may impose, which conditions or limitations may lapse at the end of the deferral period in installments or otherwise. Deferred stock awards carry no voting or dividend rights or other rights associated with stock ownership. Upon termination of employment during the restriction or deferral period, deferred stock will be forfeited subject to such exceptions, if any, as are authorized by the Compensation Committee.

Bonus Shares and Awards in Lieu of Obligations. The Compensation Committee is authorized under the 2008 Stock Plan to grant shares of common stock to eligible persons as a bonus or in lieu of obligations (such as salary requirements) to pay cash or deliver other property, subject to such terms as determined by the Compensation Committee.

Performance Awards. A performance award is an award of a number of units that represents the right to receive a specified number of shares of common stock or cash, or both, upon the satisfaction of certain specified performance criteria, as applicable to us or any subsidiary, division, business unit or individual, within a performance period as specified by the Compensation Committee, and subject to such other terms and conditions as the Compensation Committee determines. Performance awards will be earned to the extent such performance goals established by the Compensation Committee are achieved over a period of time specified by the Compensation Committee. These awards may be designated as performance shares or performance units.

The performance objectives may vary from participant to participant, group to group and period to period. The performance objectives for awards intended to constitute qualified performance-based compensation (see discussion below under the heading "Summary of Federal Income Tax Consequences") will include, but not be limited to, the following: earnings per share and growth in earnings per share; gross or net sales, revenues and growth of sales or revenues; cash flow (including, but not limited to, operating cash flow and free cash flow); return on investment; return on net assets, assets, capital or equity; economic value added; operating margins; gross or net profit margin; income or net income (before or after taxes); EBITDA; pre-tax income before interest, depreciation and amortization; pre-tax operating earnings after interest expense and before extraordinary or special items; operating income or net operating income; operating profit or net operating profit; total stockholder returns; price of the shares (and changes thereof); cost reductions or savings; productivity; expenses; operating efficiency; customer satisfaction; safety metrics; working capital; market share; strategic business criteria; completion of strategic transactions; and any of the above goals as compared to the performance of a published or special index deemed applicable by the Compensation Committee. Performance goals may be measured either in absolute terms or in relative terms as compared to any incremental increase or decrease or as compared to the results of a peer group, and may reflect the results of our company on a consolidated basis or any one or more of our subsidiaries, divisions or other business units or business segments. The Compensation Committee has the discretion to determine the value of each performance award, to adjust the performance goal as it deems equitable to reflect unusual or non-recurring events affecting us or changes in laws or regulations, or accounting principles or other factors, and to determine the extent to which performance awards that are earned may be paid in the form of cash, deferred cash, shares of common stock or other awards or property, or a combination thereof. The Compensation Committee may choose a performance period of up to five years.

Dividend Equivalents. Dividend equivalents confer on a participant the right to receive an amount equal to the value of dividends per share paid by us, if any, calculated with reference to a specified number of shares of our common stock. Dividend equivalents may be granted in connection with full value awards granted under the 2008 Stock Plan. Dividend equivalents may be paid in cash or shares of our common stock, or in a combination of both, at the election of the Compensation Committee. No dividend equivalents will be payable with respect to stock options or stock appreciation rights.

Stand-Alone, Additional, Tandem and Substitute Awards. Awards granted under the 2008 Stock Plan may, in the discretion of the Compensation Committee, be granted either alone or in addition to or in tandem with any other award granted under the 2008 Stock Plan or any award granted under any other plan we may adopt from time to time. Generally, awards may not be granted in substitution for another award under the 2008 Stock Plan, or retroactively in tandem with another award under the 2008 Stock Plan at an exercise or base price lower than that of the previously granted award, without stockholder approval. However, the Compensation Committee may grant shares or awards under the 2008 Stock Plan in assumption of, or substitution or exchange for, options or other awards granted, or the right or obligation to grant future options or other awards, by a company involved in a corporate transaction with us.

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Other Stock-Based Awards. In order to enable us to respond to material developments in the area of taxes and other legislation and regulations and interpretations thereof, and to trends in executive compensation practices, the 2008 Stock Plan authorizes the Compensation Committee to grant awards that are denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to our securities in addition to those specifically described in the 2008 Stock Plan. These awards must be valued in whole or in part by reference to, or must otherwise be based on, the shares of our common stock, or the cash equivalent of such shares. These awards may be granted either alone, in addition to, or in tandem with, other awards granted under the 2008 Stock Plan or cash awards made outside the 2008 Stock Plan. The Compensation Committee will determine the terms and conditions of such awards, including the consideration paid for awards as purchase rights, which consideration generally may not be less than the fair market value of the common stock on the date that the purchase right is granted. These awards may include, without limitation, performance shares and restricted stock units that entitle the participant to receive, upon satisfaction of performance goals or other conditions, a specified number of shares of common stock or the cash equivalent thereof.

Dividends and Stock Splits. Any stock splits and stock dividends, and other dividends of cash and property, with respect to any award under the 2008 Stock Plan are subject to the same vesting terms and conditions as the shares underlying such award.

Vesting of Awards. The applicable award agreement governing an award will contain the period during which the right to exercise the award in whole or in part vests, including the events or conditions upon which the vesting of any award may accelerate. Full value awards made under the 2008 Stock Plan are subject to vesting over a period of not less than (i) three years following the grant date of the award if it vests based solely on employment or service with us, or (ii) one year measured from the commencement of the period over which performance is evaluated for full value awards that are issued or vest based upon the attainment of performance goals or other performance-based objectives. However, full value awards covering up to an aggregate of 10% of the total number of shares available for awards under the 2008 Stock Plan, and full value awards made to non-employee directors for service on the Board, may be granted without regard to such minimum vesting provisions.

Transferability of Awards. Awards granted under the 2008 Stock Plan are generally not assignable or transferable by a participant, except by will or the laws of descent and distribution or pursuant to a qualified domestic relations order, except to us under the terms of the 2008 Stock Plan, and except that, upon approval by the Compensation Committee, non-qualified stock options and SARs may be transferred by participants to immediate family members, to trusts for the benefit of immediate family members and to partnerships or similar entities in which such participant and the participant's immediate family members are the only parties or members.

Acceleration of Awards Upon Change in Control. The 2008 Stock Plan provides that in the event of our change in control (as defined in the 2008 Stock Plan and subject to limitations due to Section 409A of the Code), all outstanding awards under the 2008 Stock Plan, regardless of any limitations or restrictions, will immediately vest and become fully exercisable, and all restrictions applicable to outstanding restricted stock, performance awards and other stock-based awards will be deemed satisfied at target performance levels, unless otherwise provided by the Compensation Committee at the time of grant of the award or unless waived or deferred by the participants.

Amendment and Termination of the 2008 Stock Plan. The Board of Directors has the right to amend, alter, suspend, discontinue or terminate the 2008 Stock Plan at any time without the consent of the stockholders or participants, except that (i) stockholder approval of such action will be required if such approval is required by any federal or state law or regulation or stock exchange or stock market rule, regulation or policy, or if the Board in its discretion determines that obtaining such stockholder approval is advisable, and (ii) subject to the terms of the 2008 Stock Plan, no amendment or termination of the 2008 Stock Plan may materially and adversely affect the rights of a participant under any award granted under the 2008 Stock Plan without the consent of the affected participant. Unless earlier terminated by the Board, the 2008 Stock Plan will terminate on June 23, 2022, the tenth anniversary of the adoption of the amendment and restatement of the 2008 Stock Plan by the stockholders, and no awards may be granted under the 2008 Stock Plan after that date, although awards granted prior to that date will remain in full force and effect subject to their terms.

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The Compensation Committee may amend or terminate outstanding awards under the 2008 Stock Plan, unless expressly prohibited by the 2008 Stock Plan. However, the amendment or termination of any award that materially reduces the value of an award or otherwise impairs or adversely affects the rights of the participant under such award will require the consent of the participant.

Adjustments upon Changes in Capitalization. In the event that our stock changes by reason of any dividend (excluding an ordinary dividend) or other distribution, recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, liquidation, dissolution, sale, transfer, exchange or other disposition of all or substantially all of our assets, exchange of our securities, issuance of warrants or other rights to purchase common stock or other of our securities, or other similar transaction or change in our capital structure, then the Compensation Committee will make equitable adjustments to prevent the dilution or enlargement of the benefits or potential benefits intended to be made available under the 2008 Stock Plan by making appropriate adjustments to the number and class of shares with respect to which awards may be granted under the 2008 Stock Plan, the maximum number of shares that may be issued to any individual in any fiscal year pursuant to awards, the terms and conditions of any outstanding awards, and the number and kind of shares and the exercise price of any outstanding award under the 2008 Stock Plan.

Section 409A. Section 409A of the Code generally establishes very specific requirements that must be followed with respect to covered deferred compensation plans in order to avoid the imposition of an additional 20% federal income tax (plus interest) on the service provider who is entitled to receive the deferred compensation. Certain awards that may be granted under the 1998 Plan may constitute deferred compensation within the meaning of and subject to Section 409A. The 2008 Stock Plan is intended to be interpreted and operated in accordance with Section 409A, including any regulations or guidance issued by the Treasury Department, and contains a number of provisions intended to avoid the imposition of additional tax on 2008 Stock Plan recipients under Section 409A. The 2008 Stock Plan contains provisions intended to assist the Compensation Committee in complying with Section 409A including, among other things, the authority to amend the 2008 Stock Plan and outstanding awards to preserve the intended benefits of awards granted under the 2008 Stock Plan and to avoid the imposition of an additional tax under Section 409A. For example, if the Compensation Committee determines that any awards made under the 2008 Stock Plan will be taxable to a participant under Section 409A, then prior to exercise of stock options or stock appreciation rights by such participant or payment of other awards to such participant, the Compensation Committee may amend the 2008 Stock Plan and any outstanding awards, including retroactively, if the Compensation Committee determines it is necessary or appropriate to do so to preserve the intended tax treatment of the awards granted under the 2008 Stock Plan. The Compensation Committee also may take other actions it determines necessary or appropriate to avoid the imposition of an additional tax under Section 409A.

Summary of Federal Income Tax Consequences

The following is a general summary of certain U.S. federal income tax consequences of awards that may be granted under the 2008 Stock Plan. This summary is based upon the Code, the applicable treasury regulations promulgated thereunder, judicial authority and administrative ruling and practice, all as currently in effect. Legislative, judicial or administrative rules and interpretations are subject to change, potentially on a retroactive basis, at any time, and such changes could alter or modify the statements and conclusions set forth below. Tax laws are complex and subject to change, and this summary tax information is not tax advice. This summary does not purport to be complete and does not address all aspects of federal income taxation that may be relevant to a particular participant in light of such participant's personal investment circumstances or participants subject to special treatment under the federal income tax laws. The summary also does not address the effects of foreign, state or local tax consequences. Accordingly, each participant should consult his or her personal tax advisor with regards to the tax consequences of participating in the 2008 Stock Plan. The 2008 Stock Plan is not a tax-qualified deferred compensation plan under Section 401(a) of the Code, and is not subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended.

Incentive Stock Options. A participant who is granted an incentive stock option will not recognize any taxable income at the time the incentive stock option is granted or exercised, although the amount by which the fair market value of our common stock on the date of exercise exceeds the option exercise price is an adjustment item for purposes of the alternative minimum tax. If the participant holds the shares received upon the exercise of the incentive stock option for at least one year after the date of exercise and two years after the date of grant, referred to as the holding period, then any difference between the amount realized upon the disposition of the shares and the exercise price will be treated as long-term capital gain or loss to the participant. We will not have any tax consequences from the grant or exercise of an incentive stock option (except as discussed below) if the participant satisfies the holding period requirements.

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If a participant exercises an incentive stock option but does not satisfy the holding period requirements above, the participant generally will recognize ordinary income in the year of disposition of the shares acquired upon the exercise of an incentive stock option equal to the excess, if any, of the fair market value of the common stock on the date of exercise over the option exercise price, and any excess of the amount realized on such disposition over the fair market value of the common stock on the date of exercise will be taxed as long-term or short-term capital gain, as applicable. If the participant disposes of the shares prior to the satisfaction of the holding period requirements but the amount realized is less than the fair market value of the common stock on the date of exercise, the participant will recognize ordinary income equal only on the excess of the amount realized upon the disposition of the shares over the option exercise price. In either event, we will be entitled to a tax deduction in an amount equal to the amount constituting ordinary income to the participant.

If a participant exercises an incentive stock option by tendering shares (other than the shares acquired upon the exercise of an incentive stock option and not held for the requisite holding period) in payment of all or part of the option exercise price, the participant will not be required to recognize any taxable income from the exchange and option exercise, and the participant's tax basis and holding period (for capital gain purposes) for the tendered shares will be treated as a substituted basis for the shares received upon the exercise of the incentive stock option. If the participant uses shares received upon the exercise of an incentive stock option as to which the participant had not satisfied the applicable holding period requirements, the exchange will be treated as a taxable disqualifying disposition of the exchanged shares, with the result that the excess of the fair market value of the shares tendered over the participant's basis in such shares would be taxable.

Non-Qualified Stock Options. A participant who is granted a non-qualified stock option with an exercise price no less than the fair market value of the underlying shares on the date of grant will not recognize any taxable income, and we will not have any tax consequences, at the time the non-qualified stock option is granted. In general, upon the exercise of a non-qualified stock option, a participant will recognize ordinary income in an amount equal to the excess, if any, of the fair market value of our common stock on the date of exercise over the option exercise price, and we will be entitled to a tax deduction in the same amount in the year the participant exercises the non-qualified stock option. Upon subsequent disposition of shares acquired upon the exercise of a non-qualified stock option, a participant will have a capital gain or loss equal to the difference between the amount realized on the disposition and the participant's tax basis in the shares, which is generally the amount paid for the shares plus the amount treated as ordinary income at the time the non-qualified stock option was exercised. Such capital gain or loss will be long-term if the participant's holding period is longer than one year, and short-term otherwise. The participant's taxable disposition of the shares acquired upon the exercise of a non-qualified stock option will not result in any additional tax consequences to us.

Stock Appreciation Rights. The grant of a stock appreciation right with an exercise price no less than the fair market value of the underlying shares on the date of grant will create no federal income tax consequences for the participant or us. When a participant exercises a stock appreciation right, the amount of any cash received and the fair market value on the date of exercise of any shares received will constitute ordinary income to the participant, and we will be entitled to a tax deduction in the same amount in the year of exercise.

Restricted Stock. The federal income tax consequences of restricted stock awards depend upon the restrictions imposed on the restricted stock. In the absence of an election under Section 83(b) of the Code by a participant, the grant of restricted stock will not result in taxable income to the participant or entitle us to a tax deduction in the year of grant if the restricted stock received is subject to a substantial risk of forfeiture and is either non-transferable or after transfer remains subject to such substantial risk of forfeiture. In such case, a participant will recognize ordinary income equal to the fair market value of the restricted stock received as of the first date the restricted stock becomes either transferable or not subject to a substantial risk of forfeiture, whichever occurs earlier. However, a participant may make a Section 83(b) election to recognize as ordinary income the value of the restricted stock as of the date of receipt rather than upon lapse of restrictions on transferability or the substantial risk of forfeiture. We generally will be entitled to a tax deduction in the amount of the fair market value of the restricted stock transferred to the participant in the year the participant recognizes ordinary income. Prior to the lapse of restrictions, dividends paid on restricted stock will be taxable to the participant as ordinary income in the year such restricted stock is received free of restrictions, and we will be entitled to a tax deduction in the same amount.

Restricted Stock Units and Deferred Stock. A participant who receives an award of restricted stock units or a deferred stock award will generally not recognize any taxable income, and we will not have any tax consequences, at the time the award of restricted stock units or a deferred stock is granted. When a participant receives the shares of common stock under the terms of the award, the fair market value on the date of exercise of the shares received, less any amount paid by the participant for such shares, will constitute ordinary income to the participant, and we will be entitled to a tax deduction in the same amount in the year of exercise.

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Dividend Equivalent Awards. A participant who receives a dividend equivalent award generally will not recognize any taxable income, and we will not have any tax consequences, at the time the dividend equivalent award is granted. When a participant is paid for the award, the amount of any cash received and the fair market value on the date any shares are received will constitute ordinary income to the participant, and we will be entitled to a tax deduction in the same amount in the year the award is paid.

Performance Awards. A participant who receives a performance award of shares of common stock will generally recognize ordinary income in the year the award is received equal to the fair market value of our common stock on the date of award. We will be entitled to a tax deduction equal to the amount of ordinary income recognized by the participant in the year such income is recognized.

Other Stock-Based Awards. A participant will recognize ordinary income equal to the amount of any cash payments or the fair market value of any shares of common stock or other property received in connection with other stock-based awards (less any amounts paid by the participant) in the year the stock-based award is received or made available to the participant without substantial restrictions or risk of forfeiture in a manner consistent with the treatment of restricted stock. We generally will be entitled to a tax deduction in the same amount and at the same time the participant recognizes such ordinary income.

Section 162(m). Section 162(m) of the Code generally limits the deductible amount of annual compensation paid (including, unless an exception applies, compensation otherwise deductible in connection with awards granted under the 2008 Stock Plan) by a public company to the chief executive officer and to the four other most highly compensated executive officers of the Company to no more than \$1,000,000 per person. This limit, however, does not apply to qualified performance-based compensation. We generally intend, but are not required, to structure stock options and other awards granted under the 2008 Stock Plan that might be affected by Section 162(m) of the Code to comply with the performance-based compensation exemption to the deductibility limit.

Section 409A. The 2008 Stock Plan permits the grant of various types of incentive awards, which may or may not be exempt from Section 409A of the Code. The tax consequences (including the amounts and the timing of those tax consequences) described above assume that an award is not subject to or does not violate the requirements of Section 409A. If an award is subject to Section 409A, and if the requirements of Section 409A are not met, the taxable events as described above could apply earlier than described, and could result in the imposition of additional taxes and penalties. Stock options, stock appreciation rights and restricted stock awards that comply with the terms of the 2008 Stock Plan and do not have a deferral feature, and are not amended, are generally exempt from the application of Section 409A, which is applicable to deferred compensation plans within the meaning of Section 409A. Restricted stock units, deferred stock awards and performance shares granted under the 2008 Stock Plan are generally subject to Section 409A unless they are designed to satisfy the short-term deferral exemption from Section 409A. Awards that do not comply with Section 409A can result in the value of the deferred compensation being currently includible in the service provider's federal income tax wages and being taxed at the service provider's marginal federal income tax rate plus an additional 20%, and interest may be included.

New Plan Benefits

The grant of awards under the 2008 Stock Plan to eligible directors, officers, employees, consultants and advisors, including the named executive officers, is subject to the discretion of the Compensation Committee and therefore cannot be determined in advance, other than the grants of restricted stock payable to non-employee directors on a formula basis as discussed under Director Compensation below. For a description of the options granted during fiscal 2011 to the Named Executive Officers under the 2008 Stock Plan, please see the Summary Compensation Table and the Option Grants in Last Fiscal Year table below under Executive Compensation. No awards will be granted under the 2008 Stock Plan with respect to the proposed amendment for additional shares prior to approval of the amendment by our stockholders at the Annual Meeting. Accordingly, except as otherwise provided above, the benefits or awards that will be received by or allocated to individuals or groups under the proposed amendment to the 2008 Stock Plan in the future are not presently determinable.

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The following table sets forth information as of April 23, 2012 regarding awards that have been granted under our 2008 Stock Plan since it was adopted in June 2008 to (i) each of our executive officers, (ii) our executive officers as a group, (iii) our non-employee directors as a group, and (iv) our other employees as a group:

Name	Number of Options	Number of Shares of Restricted Stock(1)
Sidney Hinton	0	0
Christopher T. Hutter	22,500	0
Gary J. Zuiderveen	7,500	0
All executive officers as a group (3 persons)	30,000	0
All non-employee directors as a group (4 persons)	0	127,735
All non-executive officer employees as a group (66 persons)	325,250	27,500

- (1) The number in this column reflects the actual number of shares of restricted stock awarded to such persons, not the number of shares used for share counting purposes under the 2008 Stock Plan, under which each share of restricted stock, as a full value award, granted prior to the amendment and restatement of the 2008 Stock Plan counts as 1.5 shares against the current 600,000 share limit under the 2008 Stock Plan.

Equity Compensation Plan Information

The 1998 Stock Plan and the 2008 Stock Plan are our only two equity compensation plans under which shares of our common stock have been authorized for issuance to our directors, officers, employees, advisors and consultants and awards have been made and were outstanding as of December 31, 2011. In addition, during 2006 we issued stock options to newly hired non-executive employees outside of any equity compensation plan that had been approved by our stockholders, which are the only outstanding options granted under plans not approved by our stockholders.

The following table contains information about the shares of our common stock that may be issued upon the exercise of options that were outstanding under our existing equity compensation plans as of December 31, 2011:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	830,811(1)	\$ 6.63	83,448(2)
Equity compensation plans not approved by security holders	80,000(3)	\$ 10.64	0
Total	910,811	\$ 6.98	83,448 (2)

- (1) Represents options to purchase shares of common stock granted under our 1998 Stock Plan and under our 2008 Stock Plan that were outstanding but unexercised as of December 31, 2011.

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- (2) Represents shares of common stock available for issuance under our 2008 Stock Plan as of December 31, 2011, which as of such date counted each stock option as one share and each share of restricted stock as 1.5 shares. We cannot make any additional awards under our 1998 Stock Plan.
- (3) Represents options to purchase shares of common stock granted during 2006 to newly hired non-executive employees outside of any equity compensation plan that had been approved by our stockholders.

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Vote Required

The approval of the proposed amendment and restatement of the 2008 Stock Plan requires the affirmative **FOR** vote of a majority of the shares of common stock present, in person or by proxy, at the Annual Meeting and entitled to vote on this proposal.

Recommendation

The Board of Directors unanimously recommends that stockholders vote **FOR the adoption and approval of the proposed amendment and restatement of our 2008 Stock Plan. Proxy cards signed and timely returned to us will be so voted, unless contrary instructions are specified thereon.**

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PROPOSAL 3

APPROVAL OF AN AMENDMENT TO OUR SECOND RESTATED CERTIFICATE OF INCORPORATION

TO INCREASE THE AUTHORIZED NUMBER OF SHARES OF COMMON STOCK

We are asking our stockholders to adopt and approve an amendment to our Second Restated Certificate of Incorporation in order to increase the number of shares of common stock authorized for issuance by 25,000,000 shares to a total of 50,000,000 shares. The Board of Directors believes that this amendment is in the best interests of our company and our stockholders, because of the importance of having a sufficient number of shares of common stock to provide us with the flexibility to use our common stock for corporate purposes in the future, including for public or private offerings to raise capital, acquisitions, strategic relationships, equity compensation awards under our 2008 Stock Plan, stock splits, stock dividends and distributions, and for other strategic and general business and financial purposes. Accordingly, the Board of Directors has unanimously approved, and recommends that our stockholders adopt, the proposed amendment to our Second Restated Certificate of Incorporation to increase the authorized number of shares of common stock.

Our Second Restated Certificate of Incorporation currently authorizes the issuance of 25,000,000 shares of common stock, par value \$0.01 per share, and 3,500,000 shares of preferred stock, par value \$0.01 per share. As of April 23, 2012, shares of common stock were outstanding and shares of common stock were reserved for issuance upon the exercise of outstanding stock. The proposed amendment would not change the authorized number of shares of our preferred stock, none of which were issued or outstanding as of the record date.

Description of the Amendment

On April 3, 2012, our Board of Directors unanimously approved an amendment to Article Fourth of our Second Restated Certificate of Incorporation (the Amendment), subject to stockholder approval, to increase the number of shares of our common stock that we are authorized to issue from 25,000,000 to 50,000,000. The additional shares of common stock that would be authorized for issuance under the Amendment, when issued, would have identical rights and privileges as the shares of common stock currently issued and outstanding.

The full text of the proposed Amendment, which would replace the first sentence of Article FOURTH of our Second Restated Certificate of Incorporation in its entirety, reads as follows:

The total number of shares of all classes of stock which the Corporation shall have authority to issue is Fifty-Three Million Five Hundred Thousand (53,500,000) shares, consisting of two classes: Fifty Million (50,000,000) shares of Common Stock, par value \$.01 per share, and Three Million Five Hundred Thousand (3,500,000) shares of Preferred Stock, par value \$.01 per share.

If our stockholders approve the Amendment, we intend to file a Certificate of Amendment to our Second Amended and Restated Certificate of Incorporation with the Secretary of State of the State of Delaware promptly after the Annual Meeting. The Amendment will become effective upon that filing.

Purposes of the Amendment

The primary purpose of the Amendment is to provide us with a sufficient number of shares of common stock to allow us to have the flexibility to use our common stock for corporate purposes in the future, including for public or private offerings to raise capital, acquisitions, strategic relationships, equity compensation awards under our 2008 Stock Plan, stock splits, stock dividends and distributions, and for other strategic and general business and financial purposes.

The Board believes that it is in the best interests of our company and our stockholders to increase the number of authorized shares of common stock in order to have additional authorized but unissued shares available for issuance to meet business and financial needs as they arise. As of the record date, we had only shares authorized and unissued shares in excess of the aggregate of our shares currently outstanding plus shares reserved for issuance under outstanding stock options.

The additional authorized but unissued shares of common stock that would be provided by the Amendment, just as the currently authorized but unissued shares of common stock, would be available for issuance from time to time by our Board of Directors for such purposes and for such consideration as the Board determines to be appropriate without further action by the stockholders, except as required under our Second Restated Certificate of Incorporation, Delaware law or applicable stock exchange rules and regulations.

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Increasing the number of authorized shares of common stock would give us greater flexibility. We are constantly exploring additional sources of financing, potential acquisitions, strategic transactions, and other corporate opportunities which our Board believes will be in the best interests of our company and our stockholders. The failure of stockholders to approve the Amendment may require us to forego attractive acquisition opportunities or strategic transactions that arise, to increase cash compensation to replace stock-based compensation that we believe more closely aligns our interests with the interests of our stockholders and to forego raising additional capital should the need develop. The availability of such additional shares will provide us with the flexibility to issue common stock for such business or financial purposes that may be identified in the future by the Board, without the possible expense and delay of seeking separate stockholder approval. We have no current plans, arrangements or understandings regarding the additional shares of common stock that would be authorized pursuant to the Amendment.

Potential Effects of the Amendment

If our stockholders approve the Amendment, the Board of Directors may cause the issuance of additional shares of common stock without further vote of our stockholders, except as may be required in particular cases by our Second Restated Certificate of Incorporation, Delaware law or applicable stock exchange rules and requirements. The additional shares of common stock authorized in the Amendment will not be entitled to preemptive rights nor will existing stockholders have any preemptive rights to acquire any of those shares when issued. In addition, while the adoption of the Amendment would not have any immediate dilutive effect on the proportionate voting power or other rights of existing stockholders, any future issuances of additional shares of common stock or securities convertible into or exercisable for common stock could have a dilutive effect on the equity, earnings and voting interests of existing stockholders, although the mere adoption of the Amendment would not have any immediate dilutive effect on the proportionate voting power or other rights of existing stockholders. Furthermore, future sales of substantial amounts of our common stock, or the perception that these sales might occur, could adversely affect the market price of our common stock.

While we have not proposed the Amendment with the intention of using the additional unauthorized shares for anti-takeover purposes, we could be able to use the additional shares to oppose a hostile takeover attempt or to delay or prevent a change in control or management of our company. In addition, the increase in the number of authorized shares of common stock could discourage or hinder efforts by other parties to obtain control of us, thereby having an anti-takeover effect, even if some or all of our stockholders deem such a transaction to be desirable. The existence of authorized but unissued shares of common stock could render more difficult or discourage an attempt to obtain control of us by means of a proxy contest, tender offer, merger or otherwise. For example, new shares could be issued to purchasers who might support the Board of Directors in opposing a hostile takeover bid, could be issued in transactions that dilute the stock ownership and voting power of a third party seeking to effect a merger or could be issued under future stockholder rights plans in reaction to an unsolicited acquisition proposal. The ability of the Board to issue additional shares of common stock could be used by our Board to discourage transactions in which the stockholders might otherwise receive a premium over prevailing market prices for their shares of our common stock. If changes in our ownership are discouraged, delayed or prevented, it would be more difficult for our current Board and management to be removed and replaced, even if you and other stockholders believe such actions are in the best interests of us and our stockholders. The Amendment is not being proposed in response to any known threat to acquire control of us.

We could also use the additional shares of common stock to effect stock splits, issue stock dividends, use in employee equity incentive plans or for potential strategic transactions including, among other things, capital raising, acquisitions, spin-offs, strategic partnerships, joint ventures, restructurings, divestitures, business combinations and investments, although we have no present plans to do so. We cannot provide any assurance that any such transactions will be consummated on favorable terms or at all, that they will enhance stockholder value or that they will not adversely affect our business or financial results or the market price of our common stock.

Other than the additional shares of common stock that would be reserved for issuance under the 2008 Stock Plan if Proposal 2 is approved by our stockholders at the Annual Meeting, the Board of Directors has no current plans, arrangements, commitments or understandings to issue additional shares of common stock that would be authorized by the Amendment. However, the Board believes that the benefits of providing us with the flexibility to issue additional shares without delay for any proper business purpose outweigh any possible disadvantages of having such additional shares available for issuance.

Vote Required

The approval of the proposed amendment to our Second Restated Certificate of Incorporation to increase the number of authorized shares of our common stock requires the affirmative **FOR** vote of a majority of the shares of our common stock outstanding as of the record date.

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Recommendation

The Board of Directors unanimously recommends that stockholders vote FOR the amendment to our Second Restated Certificate of Incorporation to increase the number of authorized shares of our common stock. Proxy cards signed and timely returned to us will be so voted, unless contrary instructions are specified thereon.

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PROPOSAL 4

**APPROVAL, ON AN ADVISORY BASIS, OF THE
COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS**

Background of this Proposal

In accordance with the requirements of Section 14A of the Exchange Act, our stockholders are entitled to approve, on an advisory basis, the compensation of our named executive officers as described in this proxy statement. This advisory vote, commonly referred to as a say-on-pay proposal, provides our stockholders with the opportunity to express their views on the compensation of our named executive officers. This proposal is intended to provide an overall assessment of the compensation of our named executive officers and our compensation philosophy, policies and practices generally, rather than to address any specific item of compensation.

At our 2011 annual meeting of stockholders, our stockholders voted to select, on an advisory basis, that a say-on-pay proposal to be submitted annually to our stockholders, and our Board of Directors has adopted this frequency in accordance with the preference of our stockholders. Accordingly, at the Annual Meeting, we are recommending that our stockholders indicate their support for the compensation of our named executive officers by voting FOR the following resolution:

RESOLVED, that the stockholders approve, on an advisory basis, the compensation of the Company's named executive officers, as disclosed in the Company's Proxy Statement for the 2012 Annual Meeting of Stockholders pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the Compensation Discussion and Analysis, the compensation tables and the other related materials and discussion.

Executive Compensation Program and Philosophy

As described in greater detail in this proxy statement under the heading Executive Compensation Compensation Discussion and Analysis, we seek to closely align the interests of our named executive officers with the interests of our stockholders through our executive compensation program. At the core of our executive compensation program is our pay-for-performance philosophy that links executive compensation levels and opportunities to the achievement of our overall strategy and business goals. Under our executive compensation program, our named executive officers are rewarded for the achievement of both specific corporate financial goals and individual performance goals that we believe drive the creation of stockholder value. At our 2011 annual meeting of stockholders, our stockholders overwhelmingly approved the compensation of our named executive officers, with over 93% of stockholder votes cast in favor of our 2011 say-on-pay proposal.

Our executive compensation program is administered by our Compensation Committee, with the assistance of its independent compensation consultant, to provide incentives for, reward, retain and, in the case of new hires, attract highly driven and successful executive officers who are critical for us to achieve our short-term and long-term strategic and operational business and financial goals and to enhance shareholder value, while at the same time avoiding the encouragement of unnecessary or excessive risk-taking. The Compensation Committee regularly reviews the compensation program for our named executive officers to ensure that it achieves the desired goals of incentivizing performance and aligning our executive compensation structure with our stockholders' interests. We believe that our executive compensation program is strongly aligned with the interests of our stockholders, exhibits sound corporate governance principles and supports our pay-for-performance philosophy on a risk-appropriate and balanced basis, which is evidenced by the following:

Our executive compensation program is comprised of a variety of elements, including base salary, annual cash bonuses and equity awards, intended to both reward and incentivize performance and increase stockholder value within a balanced and well-adjusted risk-based framework.

A significant portion of our total executive compensation is provided in the form of performance-based, at-risk compensation, with appropriate upside potential for strong performance, as well as downside exposure for underperformance.

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Our annual cash bonuses and incentive payouts for our named executive officers are performance based and tied to the achievement of key corporate financial or individual goals, which we believe enhance stockholder value.

Our long-term equity incentive plan includes a mix of restricted stock and performance shares with vesting terms that are designed to motivate retention and performance as well as to align the interests of our named executive officers with the interests of our stockholders.

Our executive compensation decisions take into account the dynamic financial and business markets in which we operate, such as the waiver by our named executive officers of their earned bonuses for 2009 and the freezing of their base salaries in 2011 at 2010 levels.

We have adopted an executive compensation recoupment or clawback policy that allows us to recover incentive compensation awarded to our named executive officers if it was based on financial results that were subsequently determined to be inaccurate.

We have adopted stock ownership guidelines requiring our named executive officers, as well as our directors and other key management employees, to maintain minimum and meaningful levels of stock ownership.

We have adopted an insider trading policy that, among other things, prohibits our named executive officers and our directors from engaging in hedging transactions or pledging our shares as collateral for loans, except in unique and limited situations approved by our Board with full knowledge.

We do not provide for any tax gross-ups as to any compensation payable to our named executive officers.

All members of our Compensation Committee, and the compensation consultant engaged by the Compensation Committee, are independent.

We have implemented a number of risk-mitigating measures so that our executive compensation program is structured to motivate and reward our named executive officers for taking appropriate business risks while at the same time avoiding pay practices that incentivize excessive risk-taking, as confirmed by our annual compensation risk assessment conducted by the Compensation Committee's independent compensation consultant.

We believe that our executive compensation program incentivizes outstanding performance and achievements, especially in light of the current business and economic conditions. In addition, we believe that our executive compensation actions for 2011 aligned with our pay-for-performance philosophy and also aligned the interests of our named executive officers with the long-term interests of our stockholders, while appropriately balancing risk and reward. Our executive officers have continued to successfully manage our company through the recent economic downturn, helping us achieve solid financial performance in 2011 and a strong platform for our financial performance in 2012 and beyond despite the challenging economic and business environment, and we believe our executive compensation program has been instrumental in motivating our executives to achieve this performance while balancing near and long-term risks and rewards effectively.

In fiscal 2011 our consolidated revenues grew to a record level of \$130.0 million, a 35% increase over fiscal 2010, with sequential revenue growth in each quarter of 2011 ending with a record \$39.7 million in revenues in the fourth quarter. In addition, revenues in each of our product and services lines, Distributed Generation, Utility Infrastructure and Energy Efficiency, grew substantially in fiscal 2011, accomplishing meaningful strategic and operational goals for growth and expansion. Our fiscal 2011 consolidated revenues included a record \$11.3 million in recurring revenues from distributed generation projects, which our executive officers are focused on growing in order to drive long-term stockholder value. Our diluted earnings per share in fiscal 2011 were \$1.26, which included the gains on the sales of our WaterSecure investment and our Southern Flow operations as well as the results of our discontinued PowerPackages operations, compared to diluted earnings per share of \$0.19 in 2010. Additionally, our revenue backlog for sales after December 31, 2011, as announced March 8, 2012, reached a record level of \$158 million. We ended the year with a strong balance sheet, highlighted by \$24.6 million cash on hand and no balance outstanding

under our credit facility.

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Moreover, during 2011 our named executive officers completed several key strategic decisions that strengthened the foundation and future prospects of our company, including enhancing our financial strength and liquidity through the sale of the non-core Southern Flow and WaterSecure businesses for a total of \$42.7 million in cash proceeds, discontinuing the business of PowerPackages, and extending the term of and reducing our financial covenants under our credit facility in light of the sales of our non-core businesses and our enhanced capital structure. Moreover, during 2011 our named executive officers led our business development and growth efforts by expanding all our business units through new and enhanced products and services and serving additional markets and customer bases, including new LED lighting products, new PowerBlock distributed generation technology and an expanded scope of utility infrastructure capabilities and a growing base of utility partners.

Vote Required

The affirmative **FOR** vote of a majority of the shares of common stock present, in person or by proxy, at the Annual Meeting and entitled to vote on this proposal is required to approve the compensation of our named executive officers. Because this say-on-pay vote is advisory, the results of the vote on this proposal will not be binding on us, our Board of Directors or the Compensation Committee. However, the Board of Directors and the Compensation Committee, which is responsible for administering our executive compensation program, value the opinions expressed by our stockholders and will consider the outcome of this vote when making future decisions regarding the compensation of our named executive officers.

Recommendation

The Board of Directors unanimously recommends that stockholders vote **FOR the approval, on an advisory basis, of the compensation of our named executive officers as disclosed in this proxy statement. Proxy cards signed and timely returned to us will be so voted, unless contrary instructions are specified thereon.**

Table of Contents**PROPOSAL 5****RATIFICATION OF APPOINTMENT OF****INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM****Proposal**

The Audit Committee of the Board of Directors has appointed Hein & Associates LLP to serve as our independent registered public accounting firm for the fiscal year ending December 31, 2012. Hein has served as our independent registered public accounting firm since 2004. In addition, Hein provides us with certain audit-related and tax services as described below.

Stockholder ratification of the appointment of Hein as our independent registered public accounting firm is not required by our by-laws or by any other applicable legal requirement. However, we are submitting the appointment of Hein to the stockholders for ratification as a matter of good corporate governance. If the stockholders do not ratify the appointment of Hein, then the Audit Committee may reconsider the appointment of Hein, although it may still determine to retain its appointment. Even if the appointment of Hein is ratified by the stockholders, the Audit Committee may, in its discretion, appoint a different independent registered public accounting firm at any time during the year if it determines that such a change would be in the best interests of our company and our stockholders.

We expect that one or more representatives of Hein will be present telephonically at the Annual Meeting, and will be available to respond to appropriate questions and have the opportunity to make a statement if they desire to do so.

The aggregate fees for professional services rendered to us by Hein for fiscal 2011 and fiscal 2010 were as follows:

	Fees	
	2011	2010
Audit Fees (1)	\$ 257,775	\$ 346,385
Audit-Related Fees (2)	55,575	51,125
Tax Fees (3)	680	11,005
All Other Fees	0	0
Total	\$ 314,030	\$ 408,515

- (1) Audit Fees consist of fees for professional services rendered by Hein for the audit of our consolidated annual financial statements, the audit of our internal control over financial reporting, and the review of our consolidated interim financial statements included in our Quarterly Reports on Form 10-Q.
 - (2) Audit-Related Fees consist of fees for professional services rendered by Hein for the audit of our 401(k) plan, the audit of our PowerSecure, Inc. subsidiary on a stand-alone basis, and the audit of Marcum Midstream 1995-2 Business Trust, an unconsolidated affiliate.
 - (3) Tax Fees consist of fees for professional services rendered by Hein for tax planning and preparation.
- The Audit Committee has determined that the provision of non-audit services by Hein in fiscal 2011 and fiscal 2010 was compatible with maintaining their independence.

Audit Committee Pre-Approval Policy

The Audit Committee has adopted a policy that requires the Audit Committee to pre-approve all audit and non-audit services to be provided by our independent registered public accounting firm. The Audit Committee may delegate this pre-approval authority to one or more of its members. Any such members must report any decisions to the Audit Committee at the next scheduled meeting. In accordance with this pre-approval policy, all professional services provided by Hein as our independent registered public accounting firm during fiscal 2011 were pre-approved by the Audit Committee.

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Vote Required

The affirmative **FOR** vote of a majority of the shares of common stock present, in person or by proxy, at the Annual Meeting and entitled to vote on this proposal is required to ratify the appointment by the Audit Committee of Hein as our independent registered public accounting firm for the fiscal year ending December 31, 2012.

Recommendation

The Audit Committee and our Board of Directors unanimously recommend that stockholders vote **FOR the ratification of the appointment of Hein as our independent registered public accounting firm for the fiscal year ending December 31, 2012. Proxy cards signed and timely returned to us will be so voted, unless contrary instructions are specified thereon.**

Table of Contents**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table contains information regarding the beneficial ownership of our common stock as of April 23, 2012 (except as otherwise noted) by:

each person known to us to be the beneficial owner of more than 5% of the outstanding shares of our common stock;

each of our directors and nominees for director;

each of our named executive officers; and

all of our current directors and executive officers as a group.

Unless otherwise indicated, the address of each beneficial owner listed in the table below is c/o PowerSecure International, Inc., 1609 Heritage Commerce Court, Wake Forest, North Carolina 27587. The information provided in the table below is based on our records, information filed with the SEC and information provided to us.

Name of Beneficial Owner	Shares Beneficially Owned (1)	
	Number	Percent (2)
Gruber & McBaine Capital Management, LLC (3)	1,838,605	9.7
50 Osgood Place, Penthouse		
San Francisco, CA 94133		
Systematic Fund Management, L.P. (4)	1,408,313	7.4
300 Frank W. Burr Blvd.		
Glenpointe East, 7 th Floor		
Teaneck, NJ 07866		
BlackRock, Inc. (5)	1,180,399	6.2
40 East 52 nd Street		
New York, NY 10022		
Austin W. Marx and David M. Greenhouse (6)	1,077,128	5.7
c/o Special Situations Funds		
527 Madison Avenue, Suite 2600		
New York, NY 10022		
Dimensional Fund Advisors LP (7)	1,009,468	5.3

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Palisades West, Building One

6300 Bee Cave Road

Austin, TX 78746

Sidney Hinton (8)	789,876	4.4
Christopher T. Hutter (9)	31,912	*
Gary J. Zuiderveen (10)	117,298	*
Anthony D. Pell (11)	182,605	1.0
Kevin P. Collins (12)	72,517	*
John A. (Andy) Miller (13)	23,696	*
Thomas J. Madden III	39,480	*
W. Kent Geer	500	*
All current directors and executive officers as a group (7 persons)(14)	1,297,384	6.8

* Less than 1%.

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- (1) For purposes of this table, we have determined beneficial ownership in accordance with the rules of the Securities and Exchange Commission, although such information does not necessarily indicate beneficial ownership for any other purpose. Under such rules, beneficial ownership includes any shares as to which the beneficial owner has sole or shared voting power or investment power and any shares that the beneficial owner has the right to acquire within 60 days of April 23, 2012 through the exercise of any stock option or other right. In addition, such shares that the beneficial owner has the right to acquire are deemed to be outstanding in calculating the percent beneficially owned by such beneficial owner, but are not deemed to be outstanding in determining the percent beneficially owned by any other beneficial owner. Unless otherwise indicated in these notes, we believe, based on the information furnished to us, that each beneficial owner has sole voting and investment power with respect to the shares beneficially owned, subject to community property laws where applicable.
- (2) The percentage ownership is based upon shares of common stock outstanding as of April 23, 2012.
- (3) Information based upon Amendment No. 1 to Schedule 13G filed with the SEC on February 17, 2012 by Gruber & McBaine Capital Management, LLC (GMCM), Jon D. Gruber, J. Patterson McBaine and Lagunitas Partners, indicating beneficial ownership as of December 30, 2011. Messrs. Gruber and McBaine are the managers, controlling persons and portfolio managers of GMCM. Lagunitas Partners is an investment limited partnership of which GMCM is the general partner. GMCM and Messrs. Gruber, McBaine and Swergold constitute a group within the meaning of Rule 13d-5(b) under the Exchange Act. GMCM is a registered investment adviser whose clients have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of, these shares. GMCM has shared voting and dispositive power with respect to 1,282,853 shares. Mr. Gruber has sole voting and dispositive power with respect to 280,060 shares and shared voting and dispositive power with respect to 1,282,853 shares. Mr. McBaine has sole voting and dispositive power with respect to 275,692 shares and shared voting and dispositive power with respect to 1,307,138 shares. Lagunitas Partners has shared voting and dispositive power with respect to 1,019,235 shares. Lagunitas Partners is not a member of any group and disclaims beneficial ownership of the securities with respect to which its ownership is repositied.
- (4) Information based upon Schedule 13G filed with the SEC on February 15, 2012 by Systematic Financial Management, L.P., indicating beneficial ownership as of December 30, 2011, indicating that Systematic Financial Management, L.P. has sole voting power with respect to 1,204,163 shares and sole dispositive power with respect to 1,408,313 shares.
- (5) Information based upon Amendment No. 1 to Schedule 13G filed with the SEC on February 13, 2012 by BlackRock, Inc., a parent holding company, indicating beneficial ownership as of December 30, 2011, and includes shares owned by various subsidiaries of BlackRock, Inc.
- (6) Information based upon Schedule 13G filed with the SEC on February 13, 2012 by Austin W. Marx and David M. Greenhouse, indicating beneficial ownership as of December 30, 2011. Messrs. Marx and Greenhouse share voting and investment power with respect to 393,865 shares owned by Special Situations Cayman Fund, L.P., 485,110 shares owned by Special Situations Fund III QP, L.P. and 198,153 shares owned by Special Situations Private Equity Fund, L.P. Messrs. Marx and Greenhouse are the controlling principals of AWM Investment Company, Inc. (AWM), which is the general partner of and investment adviser to Special Situations Cayman Fund. AWM also serves as the general partner of MGP Advisers Limited Partnership, which is the general partner of Special Situations Fund III QP. AWM is the investment advisor to Special Situations Fund III QP and Special Situations Private Equity Fund. Messrs. Marx and Greenhouse are members of MG Advisers L.L.C., which is the general partner of Special Situations Private Equity Fund.
- (7) Information based upon Amendment No. 2 to Schedule 13G filed with the SEC on February 13, 2012 by Dimensional Fund Advisors LP indicating beneficial ownership as of December 30, 2011. Dimensional Fund Advisors LP has sole voting power with respect to 993,499 shares and sole dispositive power with respect to 1,009,468 shares. Dimensional Fund Advisors LP is a registered investment adviser that furnishes investment advice to four registered investment companies, and serves as investment manager to certain other commingled group trusts and separate accounts (such investment companies, trusts and accounts, collectively referred to as the Funds). In certain cases, subsidiaries of Dimensional Fund Advisors LP may act as an adviser or sub-adviser to certain Funds. In its role as investment adviser, sub-adviser and/or manager, neither Dimensional Fund Advisors LP nor its subsidiaries (collectively, Dimensional) possess voting and/or investment power over the securities that are owned by the Funds, and may be deemed to be the beneficial owner of the shares held by the Funds. However, all securities reported in this schedule are owned by the Funds. Dimensional disclaims beneficial ownership of such securities.

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- (8) Includes 50,000 shares that may be acquired by Mr. Hinton upon the exercise of currently exercisable stock options. Also includes 20,000 shares pledged as collateral to secure a commercial loan the proceeds of which were used to finance the exercise of stock options in 2010.
- (9) Includes 9,500 shares that may be acquired by Mr. Hutter upon the exercise of currently exercisable stock options.
- (10) Includes 39,500 shares that may be acquired by Mr. Zuiderveen upon the exercise of currently exercisable stock options.
- (11) Includes 1,000 shares owned by Mr. Pell's wife, 6,237 shares held in trust for the benefit of Mr. Pell's wife and 10,100 shares held in an account of Mr. Pell's daughter that is managed by Mr. Pell. Also includes 17,500 shares that may be acquired by Mr. Pell upon the exercise of currently exercisable stock options. Includes 136,326 shares pledged as collateral under a personal margin account, as required by Mr. Pell's current employer, of which these shares constitute only a portion of the collateral.
- (12) Includes 28,611 shares that may be acquired by Mr. Collins upon the exercise of currently exercisable stock options.
- (13) Includes 15,000 shares that may be acquired by Mr. Miller upon the exercise of currently exercisable stock options.
- (14) Includes 160,111 shares that may be acquired upon the exercise of currently exercisable stock options or stock options exercisable within 60 days of April 23, 2012 by our current directors and executive officers. See notes (8) through (13).

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EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

This Compensation Discussion and Analysis section of this proxy statement addresses the executive compensation program for our named executive officers:

Sidney Hinton, our President and Chief Executive Officer;

Christopher T. Hutter, our Executive Vice President and Chief Financial Officer; and

Gary J. Zuiderveen, our Vice President of Financial Reporting, Controller and Principal Accounting Officer.

In this Executive Compensation section, when we refer to our executives, our officers or our executive officers we mean these three named executive officers, unless the context otherwise provides or requires.

Executive Summary

Our executive compensation program is designed to provide incentives for, reward, retain and, in the case of new hires, attract highly driven and successful executive officers who are critical for us to achieve our short-term and long-term strategic and operational business and financial goals and to enhance shareholder value, while at the same time avoiding the encouragement of unnecessary or excessive risk-taking. We seek to closely align the interests of our named executive officers with the interests of our stockholders through our executive compensation program, which is administered by our Compensation Committee with the assistance of its independent compensation consultant. At the core of our executive compensation program is our pay-for-performance philosophy that links compensation levels to achievement of our overall strategy and business goals. We believe that our executive compensation program is strongly aligned with the interests of our stockholders and based on sound corporate governance principles, and that this program drives performance on a risk appropriate basis.

Under our executive compensation program, our named executive officers are rewarded for the achievement of both specific corporate financial and strategic goals as well as individual performance goals that are designed and intended to drive the creation of stockholder value. The Compensation Committee regularly reviews the compensation program for our named executive officers to ensure that it achieves the desired goals of incentivizing performance and aligning our executives' interests with our stockholders' interests. This includes establishing performance targets and individual performance goals based on our strategic and operating plans.

We believe that our executive compensation program is strongly aligned with the interests of our stockholders, exhibits sound corporate governance principles and supports our pay-for-performance philosophy on a risk-appropriate and balanced basis, which is evidenced by the following:

Our executive compensation program is comprised of a variety of elements, including base salary, annual cash bonuses and equity awards, intended to both reward and incentivize performance and increase stockholder value within a balanced and well-adjusted risk-based framework.

A significant portion of our total executive compensation is provided in the form of performance-based, at-risk compensation, with appropriate upside potential for strong performance, as well as downside exposure for underperformance.

Our annual cash bonuses for our Chief Executive Officer and our Chief Financial Officer are performance-based and primarily based on the achievement of key corporate financial goals, our consolidated pre-tax earnings per share and our consolidated revenues, which align with stockholder value.

Our long-term equity incentive plan includes a mix of restricted stock and performance shares with vesting terms that are designed to motivate retention and performance as well as to align the interests of our named executive officers with the interests of our stockholders.

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We link our compensation decisions to the financial and business markets and outlook, such as the waiver by our named executive officers of their earned bonuses for 2009 and the freezing of their base salaries in 2011 at 2010 levels.

Cash bonuses to our Chief Executive Officer and our Chief Financial Officer for 2011 reflected our solid performance during fiscal 2011 and were in amounts directly corresponding to our level of performance.

We have adopted an executive compensation recoupment or clawback policy that allows us to recover incentive compensation awarded to our executive officers if it was based on financial results that were subsequently determined to be inaccurate.

We have adopted stock ownership guidelines requiring our executive officers, as well as our directors and other key management employees, to maintain minimum and meaningful levels of stock ownership.

Our executive officers, and our directors, are prohibited from engaging in hedging transactions or pledging our securities as collateral for loans, except in unique and limited situations approved by our Board of Directors with full knowledge.

We do not provide for any tax gross-ups as to any compensation payable to our executive officers.

All members of our Compensation Committee, and the compensation consultant engaged by the Compensation Committee, are independent.

We have implemented a number of risk-mitigating measures so that our executive compensation program is structured to motivate and reward our executive officers for taking appropriate business risks while at the same time avoiding pay practices that incentivize excessive risk-taking, as confirmed by our annual compensation risk assessment conducted by the Compensation Committee's independent compensation consultant.

We believe that our executive compensation program incentivizes outstanding performance and achievements, especially in light of the current business and economic conditions. In addition, we believe that our executive compensation actions for 2011 aligned with our pay-for-performance philosophy and also aligned the interests of our named executive officers with the long-term interests of our stockholders, while appropriately balancing risk and reward. Our executive officers have continued to successfully manage our company through the recent economic downturn, helping us achieve solid financial performance in 2011 and a strong platform for our financial performance in 2012 and beyond despite the challenging economic and business environment, and we believe our executive compensation program has been instrumental in motivating our executives to achieve this performance while balancing near and long-term risks and rewards effectively.

In fiscal 2011 our consolidated revenues grew to a record level of \$130.0 million, a 35% increase over fiscal 2010, with sequential revenue growth in each quarter of 2011 ending with a record \$39.7 million in revenues in the fourth quarter. In addition, revenues in each of our product and services lines, Distributed Generation, Utility Infrastructure and Energy Efficiency, grew substantially in fiscal 2011, accomplishing meaningful strategic and operational goals for growth and expansion. Our fiscal 2011 consolidated revenues included a record \$11.3 million in recurring revenues from distributed generation projects, which our executive officers are focused on growing in order to drive long-term stockholder value. Our diluted earnings per share in fiscal 2011 were \$1.26, which included the gains on the sales of our WaterSecure investment and our Southern Flow operations as well as the results of our discontinued PowerPackages operations, compared to diluted earnings per share of \$0.19 in 2010. Additionally, our revenue backlog for sales after December 31, 2011, as announced March 8, 2012, reached a record level of \$158 million. We ended the year with a strong balance sheet, highlighted by \$24.6 million cash on hand and no balance outstanding under our credit facility.

Moreover, during 2011 our named executive officers completed several key strategic decisions that strengthened the foundation and future prospects of our company, including enhancing our financial strength and liquidity through the sale of the non-core Southern Flow and WaterSecure businesses for a total of \$42.7 million in cash proceeds, discontinuing the business of PowerPackages, and extending the term of and reducing our financial covenants under our credit facility in light of the sales of our non-core businesses and our enhanced capital structure. Moreover, during 2011 our named executive officers led our business development and growth efforts by expanding all our business units

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through new and enhanced products and services and serving additional markets and customer bases, including new LED lighting products, new PowerBlock distributed generation technology and an expanded scope of utility infrastructure capabilities and a growing base of utility partners

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Advisory Vote on Executive Compensation

Our Board of Directors and the Compensation Committee carefully consider feedback from our stockholders regarding our executive compensation program. At our 2011 annual meeting of stockholders, we held a stockholder advisory vote on the compensation of our named executive officers, referred to as a say-on-pay vote. Our stockholders overwhelmingly approved the compensation of our named executive officers, with over 93% of stockholder votes cast in favor of our 2011 say-on-pay resolution. As we evaluated our compensation practices for 2012, we were mindful of the strong support our stockholders expressed for our pay-for-performance compensation philosophy linking compensation to our financial and operating goals and the enhancement of stockholder value. As a result, the Compensation Committee has continued to apply the same effective principles and philosophy it has used in recent years in determining executive compensation, retaining our general pay-for-performance approach to executive compensation for 2012.

When determining how often to hold the stockholder advisory vote on named executive officer compensation, the Board of Directors took into account the strong preference for an annual vote expressed by our stockholders at our 2011 annual meeting. Accordingly, the Board of Directors determined that we will hold an annual advisory stockholder vote on the compensation of our named executive officers until the next say-on-pay frequency vote. Our Board of Directors and our Compensation Committee value the opinions of our stockholders and, to the extent there is any significant vote against the compensation of our named executive officers, we will consider our stockholders' concerns and the Compensation Committee will evaluate whether any actions are necessary to address those concerns.

Overview of Compensation Committee

The Compensation Committee of our Board of Directors is responsible for establishing and administering the compensation program and policies for our executive officers as well as developing and monitoring our compensation program and philosophy for our employees generally. The Compensation Committee approves all compensation paid to our executive officers, establishes our compensation policies for our executive officers, reviews and approves our general compensation policies for our non-executive employees and also oversees the administration of our stock plans under which grants of equity awards, such as stock options and restricted stock, may be made to our executive officers and employees.

During 2011, the members of the Compensation Committee were John A. (Andy) Miller (Chairman), Anthony D. Pell, Kevin P. Collins and Thomas J. Madden III. The Board of Directors has determined that each member of the Compensation Committee is independent under our Standards of Director Independence and under the current listing standards of The NASDAQ Stock Market.

Objectives and Philosophy of Executive Compensation Program

Our executive compensation program is designed to allow us to attract, retain, motivate and reward highly qualified and industrious executives and to enhance stockholder value driven by a pay-for-performance philosophy within a risk-balanced program. We have developed an effective compensation program that entices outstanding talent to join our company, encourages professional growth in our officers and employees, motivates and rewards outstanding individual and corporate performance and creates a path towards corporate excellence. Our executive compensation program is designed to accomplish the following objectives:

to attract and retain highly talented and productive executive officers;

to provide incentives and rewards for our executive officers to be strong leaders and managers, to perform at a superior level and to achieve important financial and strategic goals;

to align the interests of our executive officers with the interests of our stockholders; and

to develop a strong pay-for-performance culture on a risk appropriate basis.

To achieve these objectives, the Compensation Committee has designed an executive compensation program that consists of four basic components:

base salary;

short-term incentive compensation in the form of annual cash bonuses and incentive awards;

long-term incentive compensation in the form of equity grants such as stock options, restricted stock and performance-based restricted stock; and

perquisites and general benefit programs.

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Our compensation program is designed to be performance-driven, which we believe is in the best interests of our stockholders. We seek to design our compensation program with a goal of maximizing corporate performance and enhancing stockholder value on a risk appropriate basis in accordance with sound corporate governance principles.

Compensation Committee Processes and Procedures

Overview of Processes and Procedures

The Compensation Committee is responsible for the review and approval of all aspects of our executive compensation program and makes all decisions regarding the compensation of the named executive officers. In fulfilling its duties and responsibilities, as discussed below, the Compensation Committee seeks the input and recommendations of our Chief Executive Officer and of the Compensation Committee's independent compensation consultant with respect to both overall compensation practices and guidelines and specific compensation decisions. Annually, the Compensation Committee reviews the base salaries, establishes the annual bonus and incentive compensation plans, goals and arrangements and evaluates the long-term incentives and overall compensation levels of our named executive officers. The Compensation Committee generally makes these critical annual compensation decisions during March and April of each year, when the Compensation Committee has available the results of the prior year's annual consolidated financial results.

During its annual review of the named executive officers, the Compensation Committee considers the value of the overall role and contribution of each named executive officer, including the impact that the named executive officer has had on the achievement of our corporate performance and on our strategic, financial and operating goals. In making compensation decisions, the Compensation Committee also analyzes tally sheets for each of the executive officers that show the dollar amount of each component of the executive officer's compensation. The Compensation Committee also considers the recommendations of our Chief Executive Officer, the advice of the Compensation Committee's independent compensation consultant and, from time to time, general industry survey data of executive compensation practices at other companies. While the Compensation Committee gives significant weight to the recommendations of our Chief Executive Officer and of the independent compensation consultant, the Compensation Committee is responsible for making the final decision on executive compensation matters and exercises its discretion and authority in approving, modifying or rejecting these recommendations. After considering these recommendations and making its own evaluation, the Compensation Committee establishes the base salary, annual bonus and incentive programs and targets and long-term compensation for the named executive officers.

In general, the Compensation Committee's compensation process involves a combination of establishing proper metrics for certain compensation elements, such as the annual incentive compensation plan and performance-based stock awards, with other compensation elements being subjective and based primarily on the judgment of the members of the Compensation Committee. In making compensation decisions, the Compensation Committee considers such factors as it deems relevant, appropriate, reasonable and in the best interests of the stockholders, including individual performance, corporate performance, the recommendations of our Chief Executive Officer, the advice of the Compensation Committee's independent compensation consultant, and the knowledge and experience of the members of the Compensation Committee. Subject to exceptions from time to time as it deems appropriate, the Compensation Committee does not specifically utilize peer company comparisons to establish executive compensation levels, although it may consider general industry pay survey data in assessing the reasonableness of compensation and ensuring that compensation levels at our company remain competitive. The Compensation Committee believes that, due to the diversification, market niches and size of our company, it is difficult to establish a meaningful peer group or to make meaningful comparisons with other companies. Accordingly, the Compensation Committee believes that its members, with the assistance and recommendations of our Chief Executive Officer and the advice of its independent compensation consultant, are generally best situated to make compensation decisions.

The Compensation Committee does not generally delegate any of its authority to other persons, although it has the power to delegate authority to subcommittees and officers and it has recently commenced a practice of authorizing the Chief Executive Officer to grant a limited number of awards to non-executive employees under conditions prescribed by the Compensation Committee. The Compensation Committee has authority under its charter to retain, approve fees for and terminate independent experts, consultants and advisors as it deems necessary to assist in the fulfillment of its responsibilities.

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Role of Our Executive Officers

The Compensation Committee considers, and factors into its decision-making process, recommendations from our Chief Executive Officer regarding the compensation of other executives. Our Chief Executive Officer often provides the Compensation Committee with his recommendations on certain components of the compensation of the other executive officers, either directly through recommended compensation amounts or indirectly through performance evaluations. Our Chief Executive Officer often makes these recommendations to the Chairman of the Compensation Committee without participating in meetings of the Compensation Committee. Although from time to time our Chief Executive Officer is invited to and participates in meetings discussing the compensation of other executive officers, he is not present for any portions of meetings when his compensation is being determined. No other executive officer was actively involved in the evaluation, design or administration of our executive compensation program, other than providing information from time to time requested by the Compensation Committee.

Role of Independent Compensation Consultant

The Compensation Committee has engaged and regularly consults with Frederic W. Cook & Co., its independent compensation consultant, in performing its duties and considers its advice and recommendations before taking actions and making decisions on executive compensation. Since 2007, the Compensation Committee has utilized Cook to assist it with establishing our executive compensation program and setting the elements of the compensation of executive officers, including base salaries, bonus and incentive compensation plans and arrangements and equity granting practices. The Compensation Committee typically invites Cook to attend meetings where compensation actions are to be discussed and Cook's advice and analysis is expected to be sought. Cook provides the Compensation Committee with advice and recommendations on executive compensation as appropriate and as requested by the Compensation Committee. Cook from time to time communicates with the Chairman of the Compensation Committee outside of Committee meetings. Cook has not provided any services to, or received any fees from, our company or management other than for compensation consulting services rendered to the Compensation Committee. In addition, Cook was selected by and reports directly to the Compensation Committee and not to management. Accordingly, the Compensation Committee believes that Cook is able to provide it with independent advice and consultation services.

Components of Executive Compensation

General Executive Compensation Performance Factors

The Compensation Committee believes that the compensation and incentives of each named executive officer should be significantly influenced by a combination of the named executive officer's individual contribution and performance and of our corporate performance and the executive's contribution to that performance. Since the adoption of our executive incentive compensation plan in 2010, the Compensation Committee has tied the majority of the annual cash bonus and incentive compensation payouts for our Chief Executive Officer and our Chief Financial Officer to the achievement of key corporate financial goals that are objective, that are linked to our annual business plan and strategy and that the Compensation Committee believes are key components in increasing stockholder value. We continue to have discretionary components in certain portions of our executive compensation program, as to which the Compensation Committee considers certain specific qualitative factors of individual performance and contribution to corporate performance, as well as our financial and operating performance taking into account the overall economic and operating environment in which we conduct our business.

For Mr. Hinton, our Chief Executive Officer, the key specific qualitative factors considered by the Compensation Committee in evaluating his individual performance and contribution to corporate performance were his leadership skills, his ability to increase the long-term value of our company by setting and achieving growth goals approved by our Board, his ability to ensure compliance with efficient and effective management and operations process, his ability to establish and comply with sound corporate governance practices, his ability to identify and evaluate business risks, his ability to ensure that our culture incorporates safety as a top priority of our employees and contractors, his involvement in management succession planning and his ability to communicate effectively with stockholders.

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For Mr. Hutter, our Chief Financial Officer, the key specific qualitative factors considered by the Compensation Committee in evaluating his individual performance and contribution to corporate performance were his performance with respect to leading our investor relations program, compliance with the Sarbanes-Oxley Act, GAAP and the rules and regulations of the SEC, responsibility for financial statements, internal controls and SEC filings and reports, timely and effective communication with our Board on financial matters and issues, planning analytics, treasury management and capital structure planning and execution, M&A analytics and execution, financial planning leadership, his contributions to our business plan and strategic direction, and leading communications with regulatory agencies.

For Mr. Zuiderveen, our Principal Accounting Officer, the key specific qualitative factors considered by the Compensation Committee in evaluating his individual performance and contribution to corporate performance were his performance with respect to the timely filing of all financial reports, ensuring financial statements were in compliance with GAAP, ensuring our compliance with internal controls requirements, timely and accurate filing of all SEC reports and filings, timely bank compliance reporting, leading the XBRL transition and implementation, managing the administration of our stock plans and 401(k) plan, managing the directors and officers liability insurance program, successfully taking over our payroll and benefits process and functions, supporting our Chief Financial Officer in the performance of his responsibilities, and effective communications with our Board, our leadership team and our employees. In addition, in awarding Mr. Zuiderveen the special one-time bonus in June 2011 in connection with the sale of the WaterSecure business, the Compensation Committee considered Mr. Zuiderveen's performance with respect to the negotiation, documentation, execution and consummation of the sale, the due diligence and disclosure processes in connection with the sale, and the financial and strategic importance of that transaction to our company.

The principal factors that our Compensation Committee considered with respect to each element of our named executive officers' compensation packages are summarized below. Our Compensation Committee may, however, in its discretion apply entirely different factors with respect to the various elements of executive compensation in future years.

Pay Mix

For 2011, base salary accounted for approximately 51.5% of the total compensation of the named executive officers, and annual bonuses and incentive awards accounted for the remaining approximately 43.2% of the total compensation of the named executive officers. Other than 10,000 stock options granted to Mr. Hutter vesting over a five year period, no stock awards were made to the named executive officers, in light of the large grants of restricted stock, including service shares and performance shares, made to all the named executive officers in 2007 with vesting terms through 2012. Accordingly, the pay mix in 2011, as computed in accordance with the Summary Compensation Table, was skewed almost entirely towards cash compensation. The pay mix in 2012 is likely to continue to be predominantly cash-based because the prior stock awards that vest in 2012 limit the need for additional equity grants to be made to the named executive officers in 2012.

Base Salary

Generally. We establish base salaries for our named executive officers in amounts that are intended to provide them with sufficient, regularly-paid income to compensate them for their services rendered to us during the fiscal year. Since it is the most stable component of our executive compensation program and not at risk, the base salary is intended to provide financial stability to executives in order to attract and retain qualified and experienced individuals. Base salaries are also sometimes used in measuring other compensatory opportunities, such as target bonuses and incentive compensation opportunities, which in recent years have been set at a percentage or multiple of base salary, and severance arrangements, which for the named executive officers is based in part upon a multiple of base salary.

The base salary for each named executive officer is reviewed annually and may be adjusted in the discretion of the Compensation Committee. The base salary for each of our named executive officers is subjectively determined primarily on the basis of the following factors: experience, personal performance, contribution to our corporate performance, level of responsibility, duties and functions, breadth of knowledge, salary levels in effect for comparable positions within and without our industry, internal base salary comparability considerations, general changes in executive compensation, and our financial performance generally. The relative weight given to each of these factors differs from individual to individual, as the Compensation Committee deems appropriate. In addition, the Compensation Committee considers the recommendation of our Chief Executive Officer for other executive officers, the advice of its independent consultant, and benchmark salary data for comparable executives in similarly sized companies. The benchmark salary data reviewed in 2011 were compiled by Cook from major third-party general industry pay surveys and reflected salary levels for executives at companies with annual revenues less than \$500 million. The Compensation Committee did not use any peer group comparisons in 2011.

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For 2011. In March 2011, the Compensation Committee decided not to adjust, but rather to freeze at 2010 levels, the base salaries of our named executive officers for 2011, in light of our general efforts to control costs and overhead and to focus management on the incentives provided through our pay-for-performance bonus plans.

For 2012. In February 2012, the Compensation Committee approved increases in the base salaries of our named executive officers, reflecting their contributions to our solid corporate performance in the face of strong adverse economic and business conditions in 2011 as well as their expected contributions to our corporate performance in 2012. The Compensation Committee concluded that these base salary adjustments were fair, reasonable and appropriate and supported our compensation objectives.

The following table shows the levels of the base salaries of the named executive officers approved by the Compensation Committee since 2010:

Name	Base Salary		
	2010	2011	2012
Sidney Hinton	\$ 550,000	\$ 550,000	\$ 595,000
Christopher T. Hutter	312,000	312,000	325,000
Gary J. Zuiderveen	210,000	210,000	215,000

Annual Cash Bonuses and Incentives

Generally. We typically grant bonuses to our named executive officers after the end of each year for their services and performance over the prior year. These bonuses are payable in cash and earned based on financial and individual performance objectives that are determined at the beginning of the fiscal year and assessed by the Compensation Committee after the end of the year. These bonuses are intended to provide incentives to our named executive officers on an annual basis to deliver performance that supports our business and strategic goals and enhances our financial results.

Executive Incentive Plan. In April 2010, upon the recommendation of the Compensation Committee, our Board of Directors adopted the 2010 Executive Incentive Compensation Plan, which we refer to as the Executive Incentive Plan. The Executive Incentive Plan is a cash incentive program designed to motivate participants to perform to the best of their abilities and achieve our financial and other performance objectives, with the goal of enhancing stockholder value. The Executive Incentive Plan serves in our executive compensation program as an annual incentive plan based on such factors, metrics and terms as the Compensation Committee establishes each year, based on the circumstances and goals at the time, with an annual bonus target opportunity based on a percentage or multiple of the participating officer's base salary. Under his employment agreement, the target opportunity for Mr. Hinton for each year is to be equal to his annual base salary.

Under the Executive Incentive Plan, the Compensation Committee selects the executives and other key employees of the Company who will be participants and eligible to earn awards under the Executive Incentive Plan. At the beginning of each performance period, which generally will consist of one fiscal year, the Compensation Committee will establish the performance goals for each participant, the weighting of those performance goals and the awards payable to each participant based on the achievement of those performance goals. Each participant's award opportunity will typically be expressed as a percentage or multiple of base salary earned during the applicable performance period. Participants will be eligible to receive an award under the Executive Incentive Plan only if and to the extent performance goals predetermined by the Compensation Committee are achieved. The Compensation Committee has the discretion to reduce or eliminate any award under the Executive Incentive Plan.

The performance goals may be based on corporate financial measures (including, but not limited to, revenues, operating income, pre-tax income, net income, gross profit, costs, cash position, cash flow, free cash flow, operating cash flow, EBITDA, any of the preceding measures as a percent of sales, earnings per share (before or after taxes), return on assets, return on equity, return on investment, return on sales, total stockholder return and change in stock price), other company and business unit financial objectives, operational efficiency measures, individual performance and other objectives tied to our success or such other criteria, qualitative or quantitative, as the Compensation Committee determines in its discretion and judgment. Performance goals and the weighting thereof may differ from participant to participant, from performance period to performance period and from award to award.

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The Compensation Committee administers the Executive Incentive Plan. Subject to the terms of the Executive Incentive Plan, the Compensation Committee has all discretion and authority necessary or appropriate to control and manage the operation and administration of the Executive Incentive Plan. The Compensation Committee or the Board generally may amend or terminate the Executive Incentive Plan at any time and for any reason. In 2011, the Compensation Committee adopted a policy that provides the Compensation Committee with the discretion to review the impact of any acquisitions or dispositions with respect to our executive compensation program, as well as any other items of non-routine, non-recurring nature, and to exclude the impact of such items from the performance calculations under annual compensation program, such as under the Executive Incentive Plan.

2011 Incentive Plan Awards to Messrs. Hinton and Hutter. The Compensation Committee determined that the participants in the Executive Incentive Plan for 2011, or the 2011 Incentive Plan, were Sidney Hinton and Christopher T. Hutter, and selected the following three components as the performance goals:

our consolidated pre-tax earnings per share with certain adjustments relating to significant transactions, which we refer to as our adjusted pre-tax EPS,

our consolidated revenues, and

the individual performance of each participant.

The adjusted pre-tax EPS metric was computed by adjusting our consolidated pre-tax EPS for fiscal 2011 as determined on the basis of GAAP, which we refer to as our 2011 GAAP pre-tax EPS, by excluding the income from the gain on the sale of the WaterSecure business, and the loss on the discontinued PowerPackages business, and by adding an amount of net income equal to seven months of equity income from the WaterSecure business after its sale in 2011 at the same rate as the equity income we recorded from WaterSecure in the five months of 2011 prior to its sale, which we refer to as the WaterSecure lost income add-back. The Compensation Committee established these adjustments at the time it established the 2011 Incentive Plan in order to ensure that the awards and payouts under the 2011 Incentive Plan would be appropriate for us and consistent with incentivizing our operating performance by excluding the effects of certain significant, non-recurring events and neutralizing the impact of these events under the 2011 Incentive Plan.

The Compensation Committee concluded that adjusted pre-tax EPS and consolidated revenues metrics were, or were indicative of, key indicators of our performance and were, or were consistent with, the financial metrics most closely followed by our investors and by potential investors, and thus were the financial metrics most likely to drive an increase in stockholder value. The Compensation Committee utilized similar financial metrics in fiscal 2010 and believed such metrics continued to be appropriate and were consistent with stockholder interests and feedback on our 2010 executive compensation program, including the overwhelming stockholder vote for our named executive officer compensation at the 2011 annual meeting of stockholders. The Compensation Committee also concluded that, as in 2010, a portion of the bonus opportunities to Messrs. Hinton and Hutter for 2011 should be tied to individual performance to emphasize the need for strong leadership in establishing the foundation for the future growth of our evolving company and to mitigate potential risks that could emerge from excessive focus on short-term financial results.

The Compensation Committee established threshold, target and maximum performance levels for the adjusted pre-tax EPS and consolidated revenues goals that, when combined with the incentive opportunity for individual performance, created the following potential cash awards payable, expressed as a percentage of base salary, under the 2011 incentive plan for Messrs. Hinton and Hutter upon the achievement of the following performance levels:

Name	Potential 2011 Incentive Plan Payouts As a Percentage of Base Salary		
	Threshold	Target	Maximum
Sidney Hinton	50%	100%	200%
Christopher T. Hutter	25%	50%	75%

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After reviewing our business plan and strategy and internally projected financial results and goals, and also after consideration of investor expectations, the Compensation Committee established the following threshold, target and maximum performance levels for the adjusted pre-tax EPS and revenues goals and the following weighting for each performance goal under the 2011 incentive plan:

Performance Goal	2011 Incentive Plan Performance Levels			Weighting
	Threshold	Target	Maximum	
Adjusted Pre-Tax EPS	\$0.10	\$0.25	\$0.45	50%
Revenues	\$105 Million	\$120 Million	\$130 Million	25%
Individual Performance	Discretionary	Discretionary	Discretionary	25%

The Compensation Committee, in establishing these goals, believed that achievement of these performance levels would drive solid growth and performance in 2011. The Compensation Committee believed that the target levels represented achievable financial results with stretch performance and that the maximum levels would require very high levels of performance believed to be possible but would represent superior performance beyond expectations with a low probability of being achieved.

For fiscal 2011, our adjusted pre-tax EPS was \$0.20, which exceeded the threshold goal but was less than the target goal, resulting in a less than target level payout to Messrs. Hinton and Hutter with respect to this financial metric. As provided in the Executive Incentive Plan, the bonus payout amounts for the adjusted pre-tax EPS metric were established by interpolation on a straight-line basis. This adjusted pre-tax EPS was computed by making the adjustments to our 2011 GAAP pre-tax EPS described above, as set forth in the following table:

Item	2011 Actual Results, on a Per Share Basis
GAAP pre-tax EPS	\$ 1.08
Less: Gain on sale of WaterSecure	\$ (1.14)
Plus: Loss on PowerPackages add-back	\$ 0.13
Plus: WaterSecure lost income add-back	\$ 0.13
Adjusted pre-tax EPS	\$ 0.20

In addition, in fiscal 2011 our consolidated revenues were \$130.0 million, a company record and a 35% increase over fiscal 2010 revenues, thus achieving the maximum goal. As a result, Messrs. Hinton and Hutter received the maximum payout with respect to this financial metric.

In its discretionary subjective assessment of the officers' individual performance in 2011, the Compensation Committee concluded that the individual performance of each of Messrs. Hinton and Hutter exceeded his respective target level but was less than the maximum level. The key specific qualitative factors considered by the Compensation Committee in evaluating their individual performances are discussed above under

Compensation Discussion and Analysis Components of Executive Compensation General Executive Compensation Performance Factors. The Compensation Committee also takes into account the overall economic and operating environment in which we conduct our business when considering these factors. However, the Compensation Committee made this subjective evaluation of individual performance without using specific targets, weightings or formulas in making its determination of the level of the individual performance of Messrs. Hinton and Hutter.

After reviewing our financial performance and results for fiscal 2011 and evaluating the individual performances of Messrs. Hinton and Hutter, the Compensation Committee approved the following cash payouts under the 2011 Incentive Plan:

Name	Actual 2011 Incentive Plan Payouts				Total Payout as a Percentage of Base Salary
	Adjusted Pre-Tax EPS	Revenues	Individual Performance	Total Payout	
Sidney Hinton	\$ 229,167	\$ 275,000	\$ 171,875	\$ 676,042	122.9%

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Christopher T. Hutter	\$ 65,000	\$ 58,500	\$ 53,675	\$ 177,125	56.8%
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2011 Discretionary Bonus Award to Mr. Zuiderveen. For 2011, the Compensation Committee established a target bonus for Mr. Zuiderveen, outside of the 2011 Incentive Plan, equal to 35% of his base salary, to be awarded on the basis of the Compensation Committee's discretionary, qualitative judgment of Mr. Zuiderveen's individual performance and contribution to corporate performance in 2011, taking into account our overall performance in 2011. The Compensation Committee awarded Mr. Zuiderveen a bonus of \$45,000 for his performance in fiscal 2011, based on his excellent performance and in light of our overall corporate performance. In addition, in June 2011, the Compensation Committee awarded Mr. Zuiderveen a discretionary bonus in the amount of \$100,000 for his outstanding performance in connection with the sale of the WaterSecure business. The Compensation Committee, in granting that bonus, considered that the value, timing and execution of the sale were very important and positive for our company and our stockholders and that Mr. Zuiderveen's performance played a critical role in the consummation of that sale. In awarding the fiscal 2011 bonus to Mr. Zuiderveen, the Compensation Committee considered Mr. Zuiderveen's performance for fiscal 2011 as a whole, other than his performance with respect to the sale of WaterSecure.

The key specific qualitative factors considered by the Compensation Committee in evaluating Mr. Zuiderveen's individual performance and contribution to corporate performance in awarding him a \$45,000 bonus for fiscal 2011 are discussed above under Compensation Discussion and Analysis Components of Executive Compensation General Executive Compensation Performance Factors. However, the Compensation Committee made this subjective evaluation of individual performance without using specific targets, weightings or formulas in making its determination of the level of individual performance of Mr. Zuiderveen.

2012 Annual Incentive Arrangements. In April 2012, the Compensation Committee determined that the participants in the Executive Incentive Plan for 2012, referred to as the 2012 Incentive Plan, will again be Messrs. Hinton and Hutter, and has again selected our consolidated pre-tax EPS, our consolidated revenues, and the individual performance of Messrs. Hinton and Hutter as the performance goals.

The Compensation Committee also established threshold, target and maximum performance levels for the pre-tax EPS and consolidated revenues goals that, when combined with the incentive opportunity for individual performance, create the following potential cash awards payable, expressed as a percentage of base salary, under the 2012 Incentive Plan for Messrs. Hinton and Hutter upon the achievement of the following performance levels:

Name	Potential 2012 Incentive Plan Payouts As a Percentage of Base Salary		
	Threshold	Target	Maximum
Sidney Hinton	50%	100%	200%
Christopher T. Hutter	25%	50%	75%

In April 2012, the Compensation Committee also determined that the fiscal 2012 bonus for Mr. Zuiderveen, which will be outside of the 2012 Incentive Plan, will again be awarded on the basis of the Compensation Committee's qualitative judgment of Mr. Zuiderveen's individual performance and contribution to corporate performance in 2012, taking into account our overall performance in 2012 but without being based upon any specific quantitative financial goals, targets or metrics. The Compensation Committee established a target bonus for Mr. Zuiderveen for 2012 of 35% of his base salary.

Long-Term Incentive Compensation

Background. Our long-term incentives are designed and intended to align the interests of our named executive officers with those of our stockholders by linking the executive's incentive with the creation of stockholder value, to provide an opportunity for increased equity ownership by our executives, and to maintain competitive levels of executive compensation, thus providing executives with a significant incentive to manage us from the perspective of an owner with an equity stake in our company. Because of the direct relationship between the value of restricted stock and stock options and the market price of our common stock, we believe that the practice of granting awards of restricted stock and stock options provides the Compensation Committee with an excellent tool for motivating our named executive officers to manage our company in a manner that is consistent with the interests of our stockholders. We also regard our equity grant program as a key retention tool, and the Compensation Committee considers retention as an important factor in setting the vesting schedule for restricted stock and stock options.

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The number of shares of common stock that we award in each grant of stock options or restricted stock is subjectively determined by the Compensation Committee primarily based on the named executive officer's anticipated contributions to our future success, the level intended to create a meaningful opportunity for stock ownership based on the executive officer's current position with us and current stock ownership, the individual's potential for increased responsibility and promotion and the individual's personal performance in recent periods. The Compensation Committee also considers the number of shares of common stock and the number of stock options already held by the named executive officer in order to maintain an appropriate level of equity incentive for that individual. While the Compensation Committee does not adhere to any specific guidelines as to the relative stock option holdings of our named executive officers, it typically considers the recommendation of our Chief Executive Officer and the advice of its independent compensation consultant.

Since June 2008, our equity grants have been made under our 2008 Stock Incentive Plan. Under the 2008 Stock Plan, the Compensation Committee has the authority to grant stock options, restricted stock, restricted stock units and various other forms of equity awards to employees, including our named executive officers. To date, all grants of equity awards made by the Compensation Committee have been in the form of either stock options or restricted stock, the vesting of which can be tied either to service time or to performance conditions established by the Compensation Committee. Before 2007, virtually all equity grants to our executives and to our employees were in the form of stock options that vested entirely on the basis of service time. In 2007, the Compensation Committee made equity grants to our named executive officers in the form of restricted stock awards with approximately equal allocations of vesting based on service time and on performance conditions. In 2008, the Compensation Committee made equity grants to Messrs. Hutter and Zuiderveen in the form of stock option awards. While the Compensation Committee made no equity grants to the named executive officers in 2009 or 2010, in 2009 the Compensation Committee modified the terms of their prior restricted stock grants, as discussed below under Compensation Discussion and Analysis Components of Executive Compensation Long-Term Compensation 2007 Restricted Stock Grants.

In the future, the Compensation Committee intends to review and consider the best methods for utilizing equity incentives to provide long-term equity compensation to our named executive officers, and expects to grant awards of restricted stock as well as stock options to the named executive officers, as well as potentially other equity-based forms of compensation, consistent with our executive compensation program and the factors discussed in this analysis. However, the Compensation Committee does not currently have any policy or guidelines on the type or amount of equity incentives to grant or on the allocation between restricted stock and stock options.

2007 Restricted Stock Grants. In August 2007, in connection with the negotiation of new or amended employment agreements with our executive officers, we made awards of restricted stock under our 1998 Stock Plan to Messrs. Hinton, Hutter and Zuiderveen. We awarded 600,000 shares of restricted stock to Mr. Hinton, intended to cover stock-based awards to him through the five year vesting period of that award. In December 2007, we awarded 25,000 shares of restricted stock to Mr. Hutter and 20,000 shares of restricted stock to Mr. Zuiderveen. Each of these restricted stock awards contained vesting schedules based upon a combination of service and performance goals, with the service shares, equal to one-half of the restricted stock awarded to each executive officer, vesting five years after the grant date provided the executive officer remains employed with us through such date, subject to acceleration of vesting upon our change in control or termination of the officer's employment by us without cause, and the performance shares vesting based upon the achievement of certain performance goals relating to our financial performance over subsequent years.

The vesting of the performance shares for Mr. Hinton was scheduled over five equal annual installments based on prescribed vesting conditions based upon certain performance goals for each fiscal year, commencing after the end of fiscal 2007 based on our fiscal 2007 performance and continuing until after the end of fiscal 2011 based upon our fiscal 2011 performance. The vesting of the performance shares for Messrs. Hutter and Zuiderveen also was scheduled over five equal installments based on the same vesting conditions, with the first installment vesting on the grant date and the remainder of the installments vesting after the end of fiscal 2008 based on our fiscal 2008 performance and continuing until after the end of fiscal 2011 based upon our fiscal 2011 performance.

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The performance goal for each fiscal year, which was originally established in 2007 based upon our performance at that time, was amended in December 2009 in light of the extraordinary and unique economic conditions that we were then facing, to modify the vesting conditions of the performance goals for the performance shares to be awarded based on our performance in fiscal years 2009 through 2011. These amendments did not change the cliff vesting condition for the service shares, which will vest five years after the original 2007 grant dates subject to continued employment service by the executives. The Compensation Committee determined that the original performance goals for these performance shares, which were established in 2007 prior to the economic and financial crisis that was outside the control of those executives and has adversely affected our financial results since 2009, were no longer appropriate or consistent with our compensation goals and philosophy. In addition, the Compensation Committee did not intend to issue any new equity awards to Mr. Hinton through the remainder of the vesting period. As modified, the performance shares related to fiscal 2009 automatically vested in March 2010, and the vesting goals for the performance shares related to each of fiscal 2010 and fiscal 2011 were modified so that such performance shares would vest only if our consolidated net income for each such year was 10% higher than our actual consolidated net income the prior year. The Compensation Committee believed that these amendments to the 2007 restricted stock awards were necessary and appropriate, setting the performance metric for the vesting of these performance shares, in light of the economic and business conditions then prevailing, at a level of bottom line growth and improvement designed to accomplish the dual goals of restoring the intent of these awards in order to enhance the performance incentives of our named executive officers to drive our future business and financial success, which would serve to enhance the goal of increasing stockholder value.

The installment of performance shares tied to our fiscal 2011 performance vested in March 2012 because our fiscal 2011 financial performance exceeded the performance goal for fiscal 2011, which was that our consolidated net income for fiscal 2011 be more than 10% higher than our consolidated net income for fiscal 2010. Accordingly, for fiscal 2011, for the final tranche of performance shares, a total of 60,000 performance shares vested for Mr. Hinton, a total of 2,500 performance shares vested for Mr. Hutter and a total of 2,000 performance shares vested for Mr. Zuiderveen. As a result, no performance shares remain unvested or outstanding under the 2007 restricted stock grant to our executive officers. However, during fiscal 2012, assuming the continued employment of our executive officers, the remaining cliff-vesting restricted shares will vest in the following amounts: 300,000 restricted shares will vest for Mr. Hinton in August 2012, 12,500 restricted shares will vest for Mr. Hutter in December 2012 and 10,000 restricted shares will vest for Mr. Zuiderveen in December 2012. After 2012, absent new grants by the Compensation Committee, no restricted stock awards will be unvested and outstanding to our executive officers.

2011 Stock Option Grant. In March 2011, the Compensation Committee, upon the recommendation of the Chief Executive Officer, granted options to purchase 10,000 shares of common stock to Mr. Hutter, with a five year vesting schedule. The purpose of the award was to further align Mr. Hutter's interests with those of long-term stockholders, as well as to provide additional incentives to Mr. Hutter for superior performance that enhances our financial success.

Equity Grants Policy. We have adopted a policy relating to grants of equity awards. The policy provides that all grants of stock options must have an exercise price that is no less than the fair value of our common stock on the date of grant, determined by reference to the closing sale price of our common stock on the date of grant. We do not time the grant of stock-based awards in coordination with or in anticipation of the release of material non-public information, and we do not time the release of material non-public information based on equity grant dates. In addition, we do not award stock options or set the exercise price of stock options based on the price of the common stock on a date other than the grant date, and we do not determine the exercise price of stock option grants by using average prices or the lowest prices of our common stock in a period preceding, surrounding or following the grant date.

In general, under our equity grants policy, awards of stock options and restricted stock to executives, if made, are typically granted once a year, in March after we file our Annual Report on Form 10-K that includes our audited consolidated financial statements for the previous year. In addition, under this policy, except in special cases, we grant stock-based awards to other employees twice a year, at the same time in March as grants to executives are made, and also in November after we file our third quarter Quarterly Report on Form 10-Q. We also make grants to newly hired employees at other times, provided the grant occurs on or after the date they commence their employment with us. Except for limited grants of stock awards discussed below, all grants of stock awards must be made at meetings of the Board of Directors or the Compensation Committee, which may be held in person or telephonically, but may not be made by written consent, and the grant date of the award is the date of the meeting. We recently commenced a practice of authorizing the Chief Executive Officer to grant a limited number of shares as awards under stock options or restricted stock to non-executive employees, provided that the exercise price of any stock option award will be the later of the grant date of the award by the Chief Executive Officer or the start date for a new hire.

Prohibition on Option Repricing. Our 2008 Stock Plan prohibits the repricing of stock options, directly or indirectly such as through cancellations and re-grants, without stockholder approval.

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Perquisites and Other General Benefits

Our named executive officers, like our other employees, are eligible to participate in various employee benefit plans, including medical plans and life and disability insurance. In addition, we maintain a 401(k) plan for the benefit of all our employees, including our named executive officers, and we make matching contributions to such persons, which matching percentage is the same for our named executive officers as for all other employees under our 401(k) plan.

We also provide limited perquisites and personal benefits to our named executive officers that are not otherwise available to all of our employees, but only to the extent that we believe they are reasonable and consistent with our overall compensation program and better enable us to attract and retain superior executives. The Compensation Committee periodically reviews the levels of perquisites and other personal benefits provided to the named executive officers. Certain of these perquisites and personal benefits are provided and required by our executives employment agreements as the result of negotiations in connection therewith. While the Compensation Committee considers these benefits and perquisites in making compensation decisions, they do not have a material influence on these decisions because they are a relatively insignificant portion of the total compensation of the executives.

We provide our Chief Executive Officer and our Chief Financial Officer with either the use of a company automobile intended primarily for business use or a car allowance in lieu of such use. In addition, we pay for one country club membership for our Chief Executive Officer, as provided in his employment agreement, which the Compensation Committee approved because it believes a club membership can provide an opportunity to build business and community relationships while promoting a healthy lifestyle. We do not own, lease, maintain or otherwise use any corporate aircraft, and our executives exclusively use commercial airlines for all air travel. We do not provide pension arrangements or similar benefits to either our named executive officers or our other employees, other than the annuity arrangement for Mr. Hinton discussed below. Periodically, our named executive officers attend company-related activities, such as sporting events or out-of town business meetings, in which we incur travel and other event-related expenses. In addition, we provide a \$5 million life insurance policy for the benefit of Mr. Hinton and a supplemental disability policy for the benefit of Mr. Hutter.

Under his employment agreement, Mr. Hinton is entitled to receive, after retirement, assuming his employment with us continues through August 15, 2012, monthly annuity payments equal to \$1,500 per year of service to us from 2000 through the date of termination, capped at \$20,000 per month, beginning at age 53, provided that Mr. Hinton may elect at least five years in advance to defer taking such payments at a later age (up to age 58), in which case the monthly amount will be equal to a higher amount (up to \$2,000 per year of service subject to the same \$20,000 per month cap). We purchased an annuity policy from a third party to assist us in satisfying our obligation to make such payments.

The incremental cost of providing perquisites to our named executive officers is set forth in a separate table that is included in a footnote to the column entitled *All Other Compensation* in the Summary Compensation Table.

Termination Benefits

Other than the severance and change in control arrangements set forth in specific written employment agreements with some of our named executive officers, the participation and matching contributions under our tax-qualified 401(k) plan, and the annuity payments for Mr. Hinton discussed above, our named executive officers do not receive any deferred compensation, pension benefit or other termination benefits from us. Information regarding these severance and change in control arrangements for the named executive officers is discussed below under

Employment Agreements, Post-Employment Compensation and Potential Payments Upon Termination or a Change in Control.

Employment Agreements, Change in Control Agreements and Severance Arrangements with Named Executive Officers

We have entered into employment agreements with each of our named executive officers. These employment agreements include change in control agreements and provisions providing for compensation after the termination of employment, but we have not entered into separate change in control agreements with any of our executives. Other than as specified in this section, we have not entered into any other employment or change in control agreements with any other executive officers.

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Each of these employment agreements provides for certain payments and other benefits if the named executive officer's employment terminates under certain circumstances, including in the event of a change in control. The Compensation Committee believes that these severance and change in control arrangements are an important part of overall compensation for our named executive officers because they help to secure the continued employment and dedication of our named executive officers, despite any concern that they might have regarding their own continued employment prior to or following a change in control. The Compensation Committee also believes that these arrangements are important as a recruitment and retention device, as most of the companies with which we compete for executive talent have similar agreements in place for their senior employees. In addition, the Compensation Committee believes these agreements will help assure us that we will have the continued dedication, undivided loyalty, objective advice and counsel and committed high level of performance from these named executive officers in the event of a proposed transaction, or the threat of a transaction, which could result in our change in control.

A summary and discussion of the employment agreements of the named executive officers is contained below under Employment Agreements, Post-Employment Compensation and Potential Payments Upon Termination or a Change in Control.

In addition, the 1998 Stock Plan and the 2008 Stock Plan generally provide for the acceleration of vesting of awards granted under the plans upon a change in control (as defined in the applicable plan). The provisions generally apply to all holders of awards under the plans. See

Potential Payments Upon Termination or Change of Control below for information regarding our payment obligations under our equity incentive plans to the named executive officers.

Tax and Accounting Considerations

From time to time, we review and consider the tax and accounting laws, rules and regulations that may affect our compensation programs. However, the tax and accounting treatment of compensation has not been a significant factor in determining the amounts and types of compensation for our named executive officers.

Accounting for Stock-Based Compensation.

We account for stock-based compensation in accordance with the requirements of with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 718. We also take into consideration FASB ASC Topic 718 and other generally accepted accounting principles in determining changes to policies and practices for our stock-based compensation programs.

Limitations on Tax Deductibility of Executive Compensation Under Section 162(m)

Section 162(m) of the Code generally disallows a tax deduction to public companies for certain compensation in excess of \$1 million paid to a company's chief executive officer and the three other most highly compensated named executive officers excluding the chief executive officer. However, qualified performance-based compensation will not be subject to the deduction limit if certain requirements are met. In the event that the Compensation Committee considers approving salary or bonus compensation in the future that could exceed the \$1 million deductibility threshold, it will consider what actions, if any, should be taken to make such compensation deductible. Our 2008 Stock Plan is designed so the grants of stock options and certain performance-based stock awards thereunder are tax-deductible. However, cash compensation, such as base salaries and cash bonuses and cash incentive compensation payments under the Executive Incentive Plan, and time-based stock awards are not qualified as performance-based compensation under Section 162(m) of the Code.

From time to time, certain compensation that the Compensation Committee may approve may not meet the requirements of Section 162(m) of the Code and, therefore, amounts in excess of \$1 million paid under that plan may not be deductible by us. The Board of Directors and the Compensation Committee reserve the authority to award non-deductible compensation in such circumstances as they deem appropriate.

Recovery of Incentive Compensation in the Event of Financial Restatement

We have adopted a compensation clawback, or recoupment, policy authorizing our Board of Directors or the Compensation Committee, in its discretion, to recover any bonus, incentive award or other compensation paid to any of our officers, including our named executive officers, if the financial results or operating metrics upon which such compensation was based were restated due to the gross negligence or intentional misconduct of the officer. In addition, in accordance with Section 304 of the Sarbanes-Oxley Act of 2002, if we are required to restate our financial statements due to any material noncompliance with any financial reporting requirement under the federal securities laws, as a result of misconduct, our Chief Executive Officer and Chief Financial Officer are legally required to reimburse us for any bonus or other incentive-based or equity-based compensation he or they receive from us during the 12-month period following the first public issuance or filing with the SEC of the financial document embodying such financial reporting requirement, as well as any profits they realized from the sale of securities during this 12-month period.

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Stock Ownership Guidelines

We have always strongly encouraged our officers and directors to maintain a significant equity stake in our company and to align their interests with those of our stockholders, and in general they have done so. In 2008, we adopted stock ownership guidelines that specify minimum stock ownership levels for our directors, executive officers and certain key employees. Our Board of Directors believes that ownership by such persons of a meaningful financial stake in our company serves to more closely align their interests with the interests of our stockholders and ensure their commitment to the creation of stockholder value.

The stock ownership guideline for our Chief Executive Officer is three times his base salary, meaning ownership of shares of our common stock with a value equal to three times his base salary. The stock ownership guideline for all our other executive officers and for employees who report directly to our Chief Executive Officer is one times base salary. The stock ownership guideline for our directors is three times their annual cash retainer. Our directors and executive officers have until the later of December 31, 2012 (December 31, 2014 for the other key employees subject to these guidelines) or five years after they become subject to these guidelines to achieve their applicable stock ownership requirements. Beginning in 2012, compliance with the guidelines will be tested as of the end of each year. Shares counted towards achievement of these stock ownership guidelines include shares owned outright, plus restricted shares subject to vesting based upon time or service-based conditions. Unvested stock options and restricted shares subject to performance-based vesting conditions will not count towards achievement of the guidelines. The value of shares owned will be determined by utilizing the closing sale price of our common stock on the date of determination.

Insider Trading Policy

We have adopted an insider trading policy, which among other things restricts hedging the economic risk of common stock ownership. Directors, officers and key employees subject to our insider trading policy are prohibited from engaging in hedging transactions and are discouraged from engaging in any other short-term transactions in our common stock. Such persons are also prohibited from holding our common stock in a margin account or pledging our shares to secure a loan, except in certain circumstances where the amount is insignificant and the arrangement has been approved in advance by our Board of Directors. In addition, our directors, executive officers and key employees subject to our insider trading policy are not permitted to purchase and sell, or sell and purchase, our common stock within any six month period, or to make any short sales of our common stock.

Compensation Committee Report

The Compensation Committee has reviewed and discussed with management the Compensation Discussion and Analysis contained in this proxy statement. Based upon such review and discussions, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

Compensation Committee

John A. (Andy) Miller, Chairman

Anthony D. Pell

Kevin P. Collins

Thomas J. Madden III

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Compensation Policies and Practices as Related to Risk Management

Our Compensation Committee has discussed and, with the assistance of Cook, evaluated the concept of risk as it relates to our compensation policies and practices for our executives and employees. As part of the evaluation process, the Compensation Committee engaged in a compensation risk assessment to identify policies or practices that inherently encourage risk-taking behaviors and determine whether such policies or practices are reasonably likely to have a material adverse effect on us. Based on such evaluation and assessment, the Compensation Committee has concluded that, when viewed as a whole, our compensation policies and practices do not encourage excessive or inappropriate risk taking and do not create risks that are reasonably likely to have a material adverse effect on us. While our compensation program is based on a pay-for-performance philosophy with a significant amount of compensation at risk, a number of our compensation practices and policies are specifically designed to mitigate excessive risk-taking by our executives and other employees, including: