UNITED STATES DISTRICT COURT

EASTERN DISTRICT OF NORTH CAROLINA

No. ___

SANDRA TAYLOR, Individually and on Behalf of All Others Similarly Situated, Plaintiff, vs. POWERSECURE INTERNATIONAL, INC., SIDNEY HINTON and CHRISTOPHER T. HUTTER, Defendants.	COMPLAINT FOR VIOLATIONS OF THE FEDERAL SECURITIES LAWS CLASS ACTION DEMAND FOR JURY TRIAL

Plaintiff, Sandra Taylor, individually and on behalf of all others similarly situated, by Plaintiff's undersigned attorneys, for Plaintiff's complaint against Defendants, alleges the following based upon personal knowledge as to Plaintiff and Plaintiff's own acts, and upon information and belief as to all other matters based on the investigation conducted by and through Plaintiff's attorneys, which included, among other things, a review of Securities and Exchange Commission ("SEC") filings by PowerSecure International, Inc. ("PowerSecure" or the "Company"), as well as media reports about the Company and conference call transcripts. Plaintiff believes that substantial additional evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

NATURE OF THE ACTION

1. This is a securities class action on behalf of all purchasers of the common stock of PowerSecure between August 8, 2013 and May 7, 2014, inclusive (the "Class Period"), seeking remedies pursuant to §§10(b) and 20(a) of the Securities Exchange Act of 1934 (the "Exchange Act"). Defendants include PowerSecure, its Chief Executive Officer ("CEO") Sidney Hinton and its Chief Financial Officer ("CFO") Christopher T. Hutter.

2. PowerSecure develops and markets energy technology products, services and data management systems to industrial and commercial users and suppliers of natural gas and electricity. The Company has three operating segments: its core Distributed Generation products and services segment ("DG"), its emerging Utility Infrastructure products and services segment ("UI"), and its Energy Efficiency products and services segment ("EE").

3. Throughout the Class Period, PowerSecure reported quarter after quarter of "record revenues," increasing earnings and "record backlog." Defendants stated that this demonstrated the Company's "continuing growth," all the while claiming that the Company was on track to achieve "2014 gross margins . . . in the mid to high 20s," that is was "scaling"

revenues "quickly to $300M target in 2015," and was "meet[ing] its goal of implied EPS [of] $1.10-$1.30 in 2015."

4. Meanwhile, with the price of PowerSecure stock artificially inflated, the Company issued and sold 2.645 million shares in a registered stock offering, receiving more than $42 million in gross proceeds, and moved its stock listing to the New York Stock Exchange ("NYSE"). Defendant Hinton sold 200,000 shares of his own personally-held stock in the same registered stock offering, receiving $3.2 million in gross proceeds, used another 137,770 shares then valued at more than $2.2 million to fund his divorce settlement, and faced potentially having to transfer another 35,000 shares of his PowerSecure stock to his former spouse in connection with their final asset division. Defendants Hinton and Hutter also rewarded themselves with large salary increases and granted Hinton 275,000 shares in the days leading up to his having to transfer stock to his former spouse, purportedly justified by the strong financial performance their keen business acumen was creating.

5. However, unbeknownst to investors, PowerSecure was encountering significant operational issues and inefficiencies arising from under-utilization of its labor and other inefficiencies in its UI segment, significantly increasing operational costs, decreasing operating margins and decreasing profits throughout the Class Period. In mid-2013, one of the Company's existing UI segment customers that had contracted with PowerSecure to perform high-margin utility infrastructure work at one geographic location unilaterally reallocated the work to be performed under the contract to another company, thereby replacing the contract with lower margin work at a more distant location. This resulted in the crews the Company had trained to do the work, at the original location (who resided in that area), to leave PowerSecure to go work for the other company that won the original contract, and required that PowerSecure undertake the

additional expense of hiring and training new crews to do the work needed to fulfill the second replacement contract at the new location. The Company was also not receiving as much work as anticipated from another new IU customer that significantly cut back work, leaving the Company to pay for the idle equipment and crews it had assimilated and trained to do a much bigger project, thereby dramatically reducing the profits from that contract. The Company had also been experiencing much longer sales cycles in its DG segment, and failing to bring in the faster-turn, smaller projects that had previously provided a steady revenue flow for that core segment. Based upon these and other factors detailed herein, the Company's backlog was diminishing and Defendants lacked a reasonable basis for their positive statements about the Company's strong financial prospects during the Class Period. When PowerSecure finally disclosed these operational problems, and their financial impact in connection with announcing its first quarter 2014 financial results on May 7, 2014, PowerSecure stock plunged by more than 62%, erasing more than $250 million in market capitalization.

JURISDICTION AND VENUE

6. The claims asserted herein arise under §§10(b) and 20(a) of the Exchange Act, 15 U.S.C. §§78j(b) and 78t(a), and Rule 10b-5 promulgated thereunder, 17 C.F.R. §240.10b-5. Jurisdiction is conferred by §27 of the Exchange Act, 15 U.S.C. §78aa.

7. Venue is proper in this district pursuant to §27 of the Exchange Act. The acts and transactions giving rise to the violations of law complained of herein occurred in this District.

THE PARTIES

8. Plaintiff, Sandra Taylor, purchased PowerSecure common stock during the Class Period as described in the Certification attached hereto and incorporated herein by reference and suffered damages thereon.

9. Defendant PowerSecure is a Wake Forest, North Carolina-based provider of products and services to U.S.-based electric utilities and to their commercial, institutional, and industrial customers. During the Class Period, PowerSecure had more than 22.3 million shares of common stock outstanding, which shares traded in efficient markets, including the NASDAQ until August 28, 2013, and then the NYSE thereafter, under the ticker symbol "POWR."

10. Defendant Hinton is, and was during the Class Period, PowerSecure's CEO, President and a Director.

11. Defendant Hutter is, and was throughout the Class Period, PowerSecure's CFO.

12. Defendants Hinton and Hutter are sometimes referred to herein as the Individual Defendants. During the Class Period, the Individual Defendants ran PowerSecure as "hands-on" managers overseeing PowerSecure's operations and finances and made the material false and misleading statements described herein. They were intimately knowledgeable about all aspects of PowerSecure's financial and business operations, as they received daily reports and had access to computerized information regarding sales, costs and expenses. They were also intimately involved in deciding which disclosures would be made by PowerSecure. Indeed, both made various public statements for PowerSecure during the Class Period, including participating in the Class Period investor conferences. The Individual Defendants together with PowerSecure are referred to herein as the "Defendants."

SUBSTANTIVE ALLEGATIONS

13. Defendant PowerSecure, through its operating subsidiary, identifies itself as a leading provider of products and services to electric utilities, and their large commercial, institutional and industrial customers. The Company's single reporting segment, Utility and Energy Technologies, includes its three operating segments: its core DG products and services

segment, and its emerging UI products and services, and its EE products and services segments.[1] Through these three operating segments, the Company serves utilities and their commercial, institutional and industrial customers to help them generate, deliver, and utilize electricity.

14. PowerSecure's revenue is dependent upon large contracts with a small number of customers. Throughout the Class Period Defendants were, therefore, cognizant that the loss of a large customer or the failure to secure other new large customers that the Company was working to obtain would have a material negative impact on financial results.

15. During 2012 and 2013, PowerSecure made three core strategic acquisitions, acquiring: (i) a solar business for approximately $4 million in June of 2012 (helping to build its nascent EE segment); (ii) the ESCO business for $1.8 million in cash and $3.7 million in working capital liabilities in March of 2013 (also helping to build the nascent EE business); and (iii) Solais Lighting in April 2013 for $6.5 million in cash plus 675,160 shares of PowerSecure common stock and assumption of approximately $0.2 million in negative working capital for a total transaction value of $15 million.

16. The Class Period commences on August 7, 2013. On that date, PowerSecure issued a press release announcing its financial results for the second quarter 2013 ended June 30, 2013. The press release stated that the Company had achieved "***[r]ecord revenues of $70.2 million reflect[ing] 85 percent growth y-o-y***," "[***r]ecord backlog grow[th] to $245 million***," "133 percent y-o-y growth in utility infrastructure revenues," "87 percent y-o-y growth in energy efficiency revenues," and "46 percent y-o-y growth in distributed generation revenues." Defendant Hinton commented on the results stating, in pertinent part, as follows:

---

[1] During the Class Period the Company had a second reporting segment, Oil & Gas, which it reports as discontinued operations.

> ***Our record second quarter results and all time high backlog illustrate the continued momentum we are seeing across our business as we deliver differentiated, best-in-class solutions to our customers***. In addition, we are very pleased with the strong performance of our two most recent acquisitions out of the gate, as our new ESCO and Solais businesses delivered second quarter revenues of $12.3 million and $1.6 million, respectively.
>
> ***With increasing revenues and EPS, a strong balance sheet, growing EBITDA from operations, a backlog that has grown even faster than our revenues, and added strength from our recent strategic acquisitions, PowerSecure has never been in a stronger position for long term success***.

The press release also made positive representations about the Company's gross margins, operating expenses and operating margins stating, in pertinent part, as follows:

> Gross margin as a percentage of revenue was 28.3 percent in 2Q 2013 compared to 32.2 percent in 2Q 2012. The y-o-y gross margin decrease was driven by a higher mix of revenues from solar and ESCO projects, and the increased contribution of our utility infrastructure products and services, ***which generally carry lower gross margins***. Solar and ESCO revenues were $3.9 million and $12.3 million, respectively (solar is included in the distributed generation product category and ESCO is included in the energy efficiency category).
>
> ***Operating expenses for 2Q 2013 as a percentage of our revenues decreased by 7.2 percentage points compared to 2Q 2012, as the company leveraged operating expenses against a greater level of revenues, quarter-over-quarter***.
>
> * * *
>
> ***Operating margin as a percentage of revenue increased 3.3 percentage points to 4.9 percent in 2Q 2013 from 1.6 percent in 2Q 2012. The increase in operating margin was driven by the reduction in operating expenses as a percentage of revenue. This increase was enhanced by the cost reduction actions the company took during the second half of 2012 to streamline its operations***.[2]

17. Later that day, PowerSecure conducted a conference call with the analysts and investors to discuss the Company's operations and second quarter 2013 results. Defendant Hinton described the results as the "strongest results in the history" of the Company stating, in pertinent part, as follows:

---

[2] All emphasis is added unless otherwise noted.

> ***Our second quarter results were the strongest results in the history of PowerSecure. We had all time record revenues, and despite growing revenues 85% year-over-year with organic growth, excluding the acquired businesses of – right at 40%, the backlog has grown – 48% to a record of $245 million. So we had record revenues of $85 million, and we are reporting a record backlog, much as we anticipated we would be doing, when we gathered on the same call 90 days ago. These results add to [what's better] than an exceptional 2013 and will position us well for the balance of the year, and continued growth***.

18. During the conference call, Defendant Hinton represented that PowerSecure had "***multiple levers***" that he "want[ed] to highlight that, particularly to the analysts that [were] on the call, ***for expanding [the Company's] gross margin***." Concluding his prepared remarks, Defendant Hinton summarized the current status of the Company's business and financial prospects stating, in pertinent part, as follows:

> Summarizing this year so far, we are very happy with the results. ***While we are very happy, we have got our foot on the gas to ensure our continued success in the second half of this year, and in 2014 and in 2015 and beyond, as we see exceptional growth opportunities all across our businesses. We just completed a detailed midyear quarterly business reviews, and the seeing [of] our first picture of 2014, and I can tell you, as it comes under focus, it looks promising***.
>
> ***Our growing backlog, our record growing backlog provides us with strong confidence in the business going forward, and we are laser focused on continuing to deliver value, both for our customers and our shareholders***.

19. During the conference call, Defendant Hinton discussed the status of the Company's utility infrastructure business, stating, in pertinent part, as follows:

> Moving on, let me talk about our utility infrastructure business, and the 133% year-over-year growth. ***It just tells you how strong the business is for us, and our prospects for this business, for continued growth look very-very good***. We signaled to you on our last conference call in June, that we expected good things, and then ***we were blessed to announce the – securing a $49 million three year contract renewal, both the renewal and expansion, with one of the largest investor on utilities in the country, and that business is now reflected in our backlog***.
>
> * * *
>
> Moving on, ***the same drivers for this business that we have seen over the past few quarters remain strong, with a combination of transmission and distribution work from an ever expanding list of large utilities, as well as expanding work***

assignments in the utilities we are already serving, as well as additional from other energy companies, *i.e.*, non-utilities to build new TMD infrastructure to serve the shale gas operations, relative to the energy companies. ***We expect our utility infrastructure to remain very healthy throughout 2013 and 2014***.

20. Defendants also engaged in the following colloquy on the call when pressed by a research analyst for more details concerning the status of the utility infrastructure business:

Eric Stine - Craig-Hallum Capital

Looking to start utility infrastructure, wow, I mean, in the past, I know you have kind of talked about this as a 40% grower, obviously that's kind of out the window. But just wondering how you can – or your thoughts on managing the growth? I know that in [the] past, getting equipment has been a limiting factor, and just how you think about your ability to do that going forward, and what the growth could be in that segment this year, and into next year?

Sidney Hinton - CEO

Well, ***we are very bullish on it***. I would say, the limiting factors continue to be – I'd say three things. First, is equipment, second is training qualified people and then third is the ability to operate that equipment and manage those people in a safe manner. We owe that to our customers, we owe that to our employees, and that's the reason we made the investment in Powerline, 100% was, we view that as a potential limiting factor and we want to be preemptive in addressing it. I would say that, we are making headway on the equipment we believe. We have – you wouldn't believe – well you would believe, given our past growth, the opportunities are in front of us, and we know that we got to get ahead of it on equipment, and we got to get ahead of it on people, and we are working diligently to do that. But those would be the two biggest issues to get them, then get them on staff to get them productive. ***But we have done a great job serving the utilities our team has there, and to continue to win opportunities to serve more within the utilities, and to serve more utilities. It's really exciting. Great, great business here***.

Eric Stine - Craig-Hallum Capital

Just along those lines, can you just give an update, maybe the number of customers, utility customers that you are doing business with, whether that has expanded. And also, I don't know if you are willing to provide the number of oil and gas customers that you are working for?

Sidney Hinton - CEO

I would say that the number of customers we are providing to in both of those segments has expanded. ***I would say our growth is driven by our expansion of serving our existing customers. In other words, that's the fruit we are eating today***. But we are blessed to see Ronnie and his team do an unbelievable job out, working with customers. Our references are through the roof, and that has blessed us. One is the opportunity to serve even more customers. Hopefully that's helpful.

Chris Hutter - CFO

Eric, I would just add, the thrust to the revenue and the revenue growth are those core investor on utilities. The incremental revenue, that's just added to that growth, has enhanced that growth is from the large energy companies.

Eric Stine - Craig-Hallum Capital

But, I mean, just an idea – and I know you maybe don't want to provide too many details, but I mean, is this still – with the energy companies, is it still just a handful, and you think that this can be more than a handful over time?

Sidney Hinton - CEO

I wouldn't say more than a handful, it might be, but it's a tremendous amount of opportunity out there to serve. I mean, our people have done a phenomenal job doing that.

Eric Stine - Craig-Hallum Capital

Okay. So similar dynamic that where you can expand within their operations?

Sidney Hinton - CEO

Oh yes. Yeah.

Eric Stine - Craig-Hallum Capital

Okay. Maybe next one for me, just on the large project opportunity side. I know you have talked about this more and more in the last few calls, and you announced one of them in the last few months. But just, what you are seeing in terms of the large project opportunities out there, is it skewed towards a specific segment, or is it across the whole – all the business lines?

Sidney Hinton - CEO

Well I would tell you, first, it's definitely across all the business lines. Maybe a slight skewing. ***The biggest opportunities are in utility infrastructure, just because that's the biggest spend, those customers are committed to spend in a lot of money. So your pipeline is bigger there, with some really big opportunities***. But we are seeing it across all the businesses. In general, ***I would say, the pipeline – our backlog is at a record, and I would say the pipeline is at a record too. Just in terms of quality and breadth and quantity, we are in a really good spot***.

21. Also on August 7, 2013, the Company announced that it would be moving its stock listing from the NASDAQ to the NYSE effective August 28, 2013.

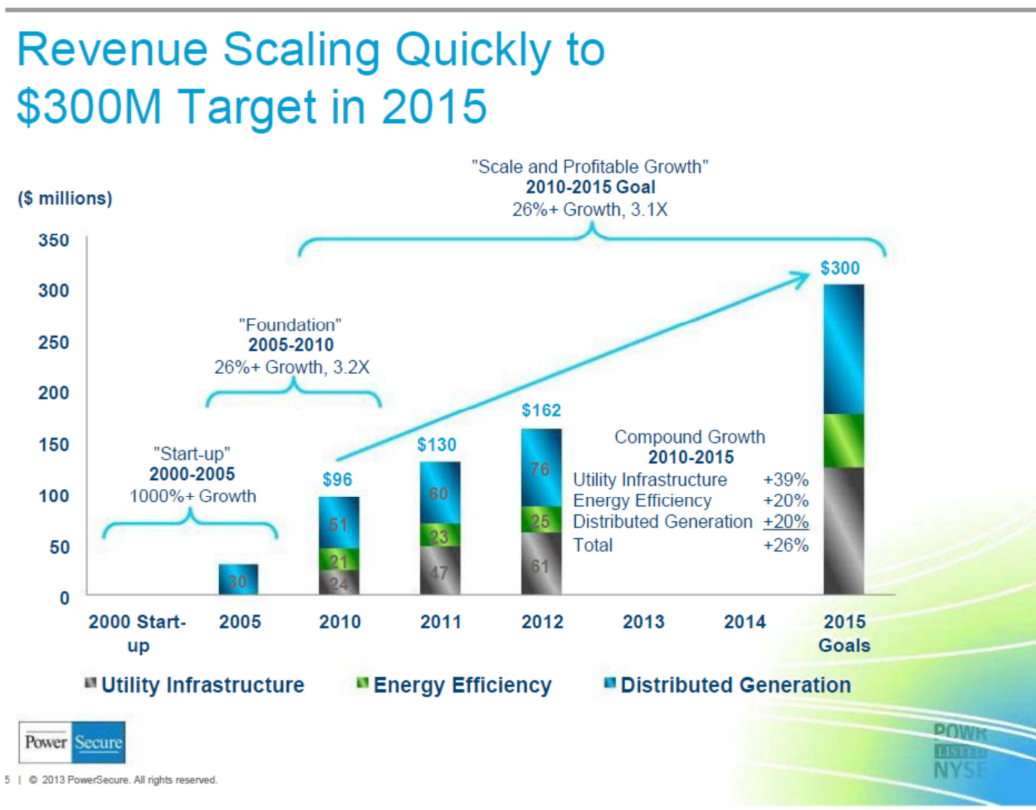
22. On August 16, 2013, the Company issued and sold 2.645 million shares of PowerSecure common stock in an underwritten public stock offering at $16 per share, ***receiving more than $42 million in gross proceeds***. The offering was underwritten by investment bankers Robert W. Baird & Co. ("Baird"), Craig-Hallum Capital Group ("Craig-Hallum"), Roth Capital Partners ("Roth"), Lake Street Capital Markets ("Lake Street") and Maxim Group ("Maxim"). Concurrently on August 16, 2013, Defendant Hinton also sold 200,000 shares of his privately-held PowerSecure common stock on the same terms as the Company as part of that offering, ***receiving $3.2 million in gross proceeds***. The Registration Statement and Prospectus used to conduct the August 16th offering was materially false and misleading in that it failed to discuss significant operational and sales difficulties the Company was then experiencing, as further detailed herein.

23. On September 19, 2013, PowerSecure issued a press release announcing that it had been awarded "approximately $15 million of additional utility infrastructure (UI) business, approximately $7 million of new turnkey distributed generation (DG) business and approximately $3 million in new energy efficiency (EE) sales," and that all $25 million would be added to its revenue backlog. Defendant Hinton commented on the announcement stating, in pertinent part, as follows:

> ***We continue to see strong growth across our business areas, with a variety of new DG projects, further momentum in our utility infrastructure business and the largest single area light order since we launched the product***.

24. On October 1, 2013, PowerSecure filed a copy of a slide presentation that "Sidney Hinton, the President and Chief Executive Officer of the Company, Christopher T. Hutter, the Executive Vice President and Chief Financial Officer of the Company, and John D. Bluth, the

Senior Vice President of Investor Relations and Corporate Communications of the Company, [would] be presenting . . . from time to time . . . to investors, investment analysts and other members of the financial and investment community." The slide presentation, contained the following slide purportedly demonstrating that the Company was then on track to quickly grow revenues to meet its $300 million target by 2015:



The slide presentation also emphasized, among others, the following "Meaningful Bottom Line Leverage" factors:

- ***Operating margins increasing***
- ***Increasing scale across all business lines***
- ***2012 cost reduction program further leverages OpEx***
- ***Major investment to build UI business from scratch in '07 now completed***

- ***Expect decreasing OpEx as % of revenue***
- ***2013 Adjusted EBITDA target: >$20M***

25. On October 2, 2013, the Company issued a press release announcing that it had been "awarded approximately $25 million of new business, including approximately $10 million from new company-owned distributed generation (DG) projects." Defendant Hinton commented on the announcement stating, in pertinent part, as follows:

> ***We continue to add new business across our service areas*** and are especially pleased to win significant new company-owned distributed generation projects, ***which generate recurring revenues and the highest gross margins in our portfolio***.

26. On November 6, 2013, Power Secure issued a press release announcing its third quarter 2014 financial results for the period ended September 30, 2013. The Company reported that it had achieved "***[r]ecord revenues of $81.5 million reflect 84 percent growth y-o-y***," "225 percent y-o-y growth in energy efficiency revenues," "72 percent y-o-y growth in utility infrastructure revenues," "62 percent y-o-y growth in distributed generation revenues," "55 percent y-o-y organic revenue growth," and "37 percent y-o-y growth in backlog to $240 million." Defendant Hinton commented on the results stating, in pertinent part, as follows:

> ***We saw strong top and bottom line growth across our business in the 3rd quarter as our robust organic growth was enhanced by our successful acquisitions, and we continue to execute in delivering best-in-class solutions and service to customers***.
>
> ***Our record revenues and further operating margin expansion highlight our execution and, combined with our strong revenue backlog of $240 million, provide us with confidence that PowerSecure is exceptionally positioned for continued success***.

The press release also stated, in pertinent part, as follows, concerning gross margins, operating expenses and operating margins:

> Gross margin as a percentage of revenue was 26.3 percent in 3Q 2013 compared to 31.4 percent in 3Q 2012. The y-o-y gross margin decrease was due to the growth of our utility infrastructure, solar, and ESCO revenues in 3Q 2013, which are generally our lowest gross margin product and service categories. ***In addition, we realized***

> ***inefficiencies in our utility infrastructure unit related to the advanced deployment of crews in anticipation of being selected for a significant long-term revenue opportunity with a major new utility partner. We anticipate some continued inefficiencies from these excess crews to negatively impact our gross margins during the fourth quarter of 2013 and the first quarter of 2014***. A separate press release announcing our selection for this opportunity was issued today in conjunction with this earnings release.
>
> * * *
>
> ***Operating expenses for 3Q 2013 as a percentage of our revenues were 19.0 percent, a decrease of 11.2 percentage points on a GAAP basis compared to 30.3 percent in 3Q 2012, and a decrease of 7.8 percentage points excluding the $1.5 million 3Q 2012 charge, as the company leveraged operating expenses against a greater level of revenues***.
>
> Operating expenses for 3Q 2013 were $15.5 million, compared to $13.4 million in 3Q 2012. Excluding the $1.5 million charge in 3Q 2012, operating expenses in 3Q 2012 were $11.8 million. The $3.7 million y-o-y increase in operating expenses consists primarily of $2.8 million of incremental operating expenses in 3Q 2013 related to our recent ESCO and Solais acquisitions. The remaining y-o-y increase in our operating expenses is primarily due to an increase in selling expenses related to our significantly higher revenues and backlog, depreciation from our investments in company-owned distributed generation systems and utility infrastructure equipment, and increases in personnel and equipment to drive and support our growth.
>
> ***Operating margin as a percentage of revenue increased 6.2 percentage points to 7.3 percent in 3Q 2013 from 1.1 percent in 3Q 2012. Excluding the 3Q 2012 charge, operating margin increased 2.7 percentage points. The increase in operating margin was a result of the significant revenue growth achieved with substantially lower growth in operating expenses***.

27. Later that day, PowerSecure conducted a conference call with analysts and investors to discuss the Company's operations and third quarter 2013 results. Minimizing the impact of the "inefficiencies in [the Company's] utility infrastructure unit related to the advanced deployment of crews in anticipation of being selected for a significant long-term revenue opportunity with a major new utility partner" described in the release, Defendant Hinton emphasized, in pertinent part, as follows:

> ***Our third quarter results continued our tremendous momentum in 2013*** with another all time record for quarterly revenues and an additional 2.7 percentage points of operating margin expansion. Third quarter revenues of $81.5 million represent a

> 84% year-over-year growth. 55 of those percentage points come from organic growth. Despite the backlog consumption associated with our record quarter in the third quarter, ***our new order flow has been strong, our backlog today stands at a very healthy $240 million which does not include the substantial new utility infrastructure opportunity that we announced this morning*** in a separate press release.
>
> The continued progression of our backlog positions us very strongly for continued growth and one of the things you will hear us talk about in this call is that ***we feel very well positioned to achieve over $300 million in sales in 2014*** as we go in a full ahead of what or strategic plan was.

28. In his opening remarks Defendant Hutter specifically addressed the UI segment by stating that the reduced blended margins had resulted in part from the Company having "held over some utility services crews in anticipation of winning the large utility services opportunity that [Defendants had] announced th[at] morning." In his opening remarks, Defendant Hinton further addressed the status of the Company's UI segment, stating, in pertinent part, as follows:

> Turning now to utility infrastructure which grew 72% year-over-year in the third quarter, ***our excellent utility infrastructure growth is being driven by a combination of winning business with new utility partners and expanding our business with existing partners***. We are also having, we are also doing work and working directly for energy companies who are building out into shale platforms building out the utility infrastructure to serve those locations. And we are seeing more and more expansion of the customers robust to serve there.
>
> ***This morning we announced a major new utility infrastructure win that has the potential this is significant I want to be very clear. This win has the potential to be the largest contract that PowerSecure has ever won***. The contract is with one of the largest electric utilities in the country. And they've selected us as one of two new partners to provide transmission infrastructure service on their power grid.
>
> We began serving this utility customer on a limited basis. In late 2012 and through our work this year and the strength we've recently added to our balance sheet, we've earned the opportunity to become a regular long-term service provider. Now that the utility has formally selected us for this role, specific volumes of ongoing work will be determined in the coming quarters.
>
> ***Based on our discussions with [the] utility, we currently estimate that in 2014 and '15, we could be asked to double our work volumes with them and as a result realize $25 million to $35 million of revenue annually from this expanded relationship***.

> I want to be clear though, we do not currently have the $25 million to $35 million of annual opportunity in our revenue backlog. The $240 million does not include that. We will add that to the backlog as we see specific volumes start to firm up. . . .
>
> But the win of that business is highly significant to us. It's a huge deal for us and something we've been strongly focused on this year. As we completed several projects this summer, ***we believed we were very well position to win this potential new business, so we maintained certain cruise [sic] and equipment that were located in those geographies close to that utility.***
>
> ***Let me be clear, we had a gap in the amount of what we had won and what we thought we would win, so we kept resources available to be able to win this work and ramp. It impacted our gross margins in the third quarter***. [Candidly] we think it will impact our gross margins in the fourth quarter, while we ramp up and maybe bleed over a little bit into the first quarter.
>
> ***But let me be clear, our work load is doubling. We will be doubling our resources there. We couldn't afford to pull back and then try to ramp up. It was definitely a case where it was best to keep our foot on the accelerator***. It cost us some money in the third quarter, cost us a little in the fourth quarter. ***We are a foot on the pedal. It's a big payout for us long-term. And we really do believe this contract has the potential to be the largest contract, we've ever won. And to put it in perspective, the largest we've ever won to-date as public over $200 million. Based on the high quality of our sales pipeline in utility infrastructure, we expect to finish 2013 very strong. And we expect 2014 to be a great year in that business as well***.

Concerning 2014 earnings guidance, Defendant Hutter stated, in pertinent part, as follows:

> I just want to make one additional technical note is that overall 2014 we expect the similar revenue pattern as 2013 meaning I would model similar year-over-year growth rates for each of our 2014 quarters year-over-year, 2014 over 2013, I keep your growth rates from quarter-over-quarter to be pretty similar as you roll through the year and I will get you a very similar pattern growth, but a similar pattern for 2014 to 2013. I think that's a good starting point.

Defendant Hinton also represented that the Company "expect[ed] [the Company's] operating expenses to be similar to [its] recent run rates over the next couple of quarters."

29. On December 5, 2013, to reward Defendant Hinton's purported "track record of successful leadership of the Company and his critical role in the execution of the Company's growth strategy in future years," the Company granted him 275,000 restricted shares of common stock.

30. On December 23, 2013, Defendant Hinton filed a Current Report on Form 8-K with the SEC indicating that on December 19, 2013 he had transferred 138,770 shares of PowerSecure common stock to his former spouse as part of the final division of marital assets in conjunction with their pending divorce. The Form 8-K also disclosed that "[i]n connection with these final asset division arrangements, Mr. Hinton may transfer up to 35,000 additional shares of Common Stock to his spouse. . . ."

31. On January 6, 2014, the Company issued a press release entitled "PowerSecure Adds $50 Million in New Business." Defendant Hinton commented on the announcement stating, in pertinent part, as follows:

> We appreciate these opportunities to serve our customers and are excited to get 2014 off to a strong start with new order activity and backlog additions across all three of our key business areas.

32. In January 2014, again as a purported "reflection of merit-based increases," Defendant's Hinton's and Hutter's annual cash salaries were increased from $595,000 and $325,000, respectively, to $700,000 and $350,000.

33. Throughout January and February 2014, the Company issued multiple press releases announcing that it was doing a lot of extra work requested by utilities to respond to the Winter 2014 ice storms.

34. On February 20, 2014, the Company issued a press release entitled "PowerSecure Adds $20 Million in New Business." Defendant Hinton was quoted in the release stating, in pertinent part, as follows:

> ***We are pleased to see continued strength in new order activity across all three of our product and service areas***.

35. On March 10, 2014, PowerSecure issued a press release announcing its fourth quarter and fiscal 2013 financial results for the period ended December 31, 2013 and its 2014 financial forecast. The release highlighted that the Company had acheived:

- ***Fourth quarter 2013 revenues increase 57.4 percent y-o-y to $73.6 million***
- ***Fourth quarter 2013 GAAP EPS of ($0.09), non-GAAP EPS of $0.13 . . .***
- ***Fourth quarter distributed generation revenues of $26.4 million, up 16.4 percent y-o-y***
- ***Fourth quarter utility infrastructure revenues of $37.5 million, up 81.7 percent y-o-y***
- ***Fourth quarter energy efficiency revenues of $9.7million, up 181.6 percent y-o-y***
- ***Full year 2013 revenues increase 66.8 percent y-o-y to record $270.2 million***
- ***Full year 2013 GAAP EPS of $0.22, non-GAAP EPS of $0.38 . . .***
- ***Full year 2013 distributed generation revenues of $111.5 million, up 46.1 percent y-o-y***
- ***Full year 2013 utility infrastructure revenues of $111.7 million, up 83.8 percent y-o-y***
- ***Full year 2013 energy efficiency revenues of $47.0 million, up 88.5 percent y-o-y***

Defendant Hinton was quoted commenting on the results stating, in pertinent part, as follows:

> A very successful fourth quarter capped a record 2013 for PowerSecure with more than $100 million of revenues in both our distributed generation and utility infrastructure product lines, and our ESCO and Solais acquisitions significantly enhanced the scale and capabilities of our energy efficiency offerings.
>
> ***Our record backlog, healthy order activity, exceptional balance sheet, and the benefits we are realizing from our acquisitions, all provide our team with confidence that our best-in-class solutions for large, growing and underserved markets, combined with our relentless commitment to serve our customers, will translate into a strong year for PowerSecure in 2014***.

36. Later that day, PowerSecure conducted a conference call with analysts and investors to discuss the Company's operations and fourth quarter and fiscal 2013 results, and fiscal 2014 guidance. Defendant Hinton represented that Winter 2014 ice storms had provided ***additional work for the Company's crews***; that the third quarter 2014 issues that had impacted the Company's margins had resulted in additional work in the fourth quarter 2014, ***improving margins***; and highlighted the $7.5 million in revenues the Company brought in in the fourth quarter 2013 on a new contract that was then on track to result in revenues of $1 million in the first quarter 2014, ***then more than two-thirds complete***. Defendant Hinton commented further, stating, in pertinent part, as follows:

> Turning now to utility infrastructure, which grew right at 82% year-over-year in the fourth quarter, and right at 84% for the full-year, ***our growth continues to be driven by winning new business for new utility partners and expanding our business with existing partners with an additional contribution from the work we are doing for the energy companies***.
>
> ***We saw a very active storm cycle this winter***. We enjoy storm works as it gives our best crews an opportunity to serve utilities. Many times we are serving utilities that we don't have existing work with, and to serve the most when they need us the most. It is important to remember that PowerSecure, the greatest value that we get from storm work is not the near term revenues, ***since we are pulling our crews off existing jobs that they work***. Instead it's the marketing value of demonstrating our distinctive capabilities to utilities and our tremendous productivity, where the utilities that they got from there with our capabilities as we did storm work for them in past years is the large utility that we announce as a new long term relationship with last quarter.
>
> ***You will recall that by holding on to our crews that we have made the decision to hold on our crews in anticipation of winning a large contract. We saw some dilution in our gross margins in the third quarter, and this improved in the fourth quarter as we expected it would, and as we described to you last quarter. We continue to expect that relationship will yield $25 million to $35 million of revenue annually***. However, until we have greater visibility with the customer, we will keep the majority of this work out of our backlog, other than near term revenues that we expect to realize. ***But just to be clear, I want to give everyone a key data point to demonstrate that this relationship is very strong and very active. During the fourth quarter we recognized $7.5 million of T&D revenue from that customer***.
>
> ***With this developing relationship, with our backlog and with the high quality of sales in our pipeline, we have visibility into what we believe will be another very good year in 2014 for our utility infrastructure business. The profitability of this segment is a major corporate priority for us in 2014. We have an outstanding team of leaders there and they are plowing ground and doing a tremendous job of building our great business, not just in 2013 and back and not just for 2014; we're looking out to 2015 and '16, a great leadership team***.

During his opening remarks, Defendant Hutter stated the Company then "expect[ed] 2014 gross margins to continue to be in the mid to high 20s," that "the revenue backlog [was] a record 248 million … compare[d] to 240 million at the time of [the] last earnings release and 183 million a year ago, so nice increases there," that the "backlog implie[d] continued growth."

37. The price of PowerSecure common stock spiked on this news, reaching a Class Period high of $27.44 per share in intraday on March 11, 2014, trading on unusually high trading volume of more than 1.4 million shares trading.

38. In response to Defendants' bullish statements concerning the Company's 2013 results and 2014 prospects, on March 11, 2014 research analysts with Lake Street, Craig-Hallum and Maxim, which had underwritten the August 16, 2013 stock offering, published highly positive reports, with Craig-Hallum and Maxim both significantly increasing their respective stock ratings and price targets for PowerSecure stock. Emphasizing that "[m]omentum continues for Power Secure as revenue increased 42% organically in the quarter, helped by an 81% increase in the Utility Infrastructure segment, which benefitted from the ramp of a large new utility customer," Lake Street stated that it then "expect[ed] shares to continue to move higher as the Q4 results increase[d] [its] confidence that ***PowerSecure [could] exceed its goals of $300M+ million in revenue and should meet its goal of implied EPS $1.10-$1.30 in 2015***." Craig-Hallum's report was titled "Expanding Pipeline & Backlog At Another Record High; Still Early In Multi-Year Revenue/EPS Ramp. Reiterate Buy Rating, Raising Price Target To $31," emphasizing that the Company was "still at early stages of a multiyear revenue and EPS ramp." In its report, Maxim upgraded PowerSecure stock to "Buy" (from "Hold") and established a $30 per share price target, stating the firm "recommend[ed] that investors purchase shares of POWR following its 4Q13 results," and emphasizing that "***[o]n the conference call, management voiced confidence in the bidding opportunities across all segments***" ***and that*** "***management [was] targeting transformational larger-scale projects in DG within the end markets of data centers and hospitals***."

39. On April 25, 2014, the Company issued a press release entitled "PowerSecure Adds More Than $20 Million in New Business." Defendant Hinton commented on the announcement stating, in pertinent part, as follows:

> ***These new business awards across multiple business areas reflect the breadth of products and solutions we offer to utility, commercial and ESCO partners to deliver exceptional reliability, drive energy efficiency and generate meaningful cost-savings***.

40. The statements referenced above in ¶¶16-20, 23-28, 31, 33-36, and 38-39 were each materially false and misleading as they failed to disclose and misrepresented the following adverse facts which were known to Defendants or recklessly disregarded by them:

(a) that the Company was encountering significant operational issues and inefficiencies arising from under-utilization of its labor and other inefficiencies in its UI segment, significantly increasing operational costs, decreasing operating margins and decreasing profits;

(b) that in mid-2013, one of the Company's existing UI segment customers that had contracted with PowerSecure to perform high-margin utility infrastructure work at a certain geographic location had unilaterally reallocated the work to be performed under the contract to another company, thereby replacing the contract with lower margin work at a more distant location, resulting in the crews the Company had trained to do the work at the original location (who resided in that area), to leave PowerSecure to go work for the other company that won the original contract, and requiring that PowerSecure undertake the additional expense of hiring and training new crews to do the work needed to fulfill the second replacement contract at the new location;

(c) that the Company was not receiving as much work as anticipated from another new IU customer who, while in the process of finalizing a new two-year contract, significantly cut back work under that contract, leaving the Company left paying for the idle equipment and crews it had assimilated and trained to do the much bigger project, thereby dramatically reducing the revenues from that contract;

(d) that as a result of its efforts to increase the mix of larger projects in its DG segment, the Company had been experiencing much longer sales cycles and failing to bring in the faster-turn, smaller projects that had previously provided a steady revenue flow for its core segment;

(e) that the longer sales cycles being experienced in the Company's DG segment and intentional slowing of UI segment growth were reducing the Company's backlog;

(f) that the newly-acquired ESCO business was not meeting Defendants' financial targets; and

(g) that based upon (a)-(f), Defendants lacked a reasonable basis for their positive statements about the Company's sales, profitability and financial prospects during the Class Period.

41. Suddenly, on May 7, 2014, after the close of trading, PowerSecure issued a press release disclosing its first quarter 2014 financial results and updating fiscal 2014 guidance. For the three months ended March 31, 2014, the Company reported a ***net loss*** of \$4.3 million, or \$0.19 a share, on \$52.8 million in revenues, despite having led the investment community to expect ***profits*** of \$0.02 a share on \$59.33 million in revenues – and compared with the prior year's net profit of \$733,000, or \$0.04 a share. Gross margins had narrowed to 20.9% from 30.6% as cost of sales jumped 34% to \$41.8 million. Operating expenses had also climbed 39% to \$17.7 million. Revenue from distributed generation (DG) products and services declined 17%.

42. Commenting on the dismal performance in the release, Defendant Hinton stated, in pertinent part, that Defendants "were very disappointed with first quarter revenues and the degree to which [PowerSecure's] utility infrastructure revenue shortfalls and operating inefficiencies negatively impacted gross margins and [its] bottom line." The release also quoted Hinton stating

that the Company "***mis-timed actions to shift resources to more profitable customers, as revenues from those new customers were not adequate to sustain [its] margins***." Concerning the reduction in PowerSecure's gross profit margins, the release stated in pertinent part as follows:

> This year-over-year gross margin decrease was driven primarily by inefficiencies in our utility services group as ***we took actions to shift resources, including equipment and people, away from certain lower-profit assignments.*** Our intent was to deploy these resources towards customer opportunities to increase our long-term profitability. However, ***we were not successful in redeploying all of the assets to new assignments in a timely manner as a result of lower-than-expected revenues from certain customers***. These productivity losses caused us to incur higher levels of personnel and equipment costs in our cost of goods sold as a percentage of our revenues, driving the gross margin on our utility services revenue to 5.9 percent for 1Q 2014, and our overall utility infrastructure revenue gross margin to 9.9 percent. This compares to 25.6 percent in 1Q 2013 and an average quarterly gross margin of 19.5 percent for utility infrastructure revenues in full year 2013.

43. The release also quoted Defendant Hinton stating that ***PowerSecure had*** "***reduced [its] revenue and profit expectations for 2014***," stating PowerSecure then expected a second quarter 2014 ***net loss*** of between $0.15 and $0.09 a share on $55 million to $60 million in revenues, versus the ***profits*** of $0.15 on $77.6 million in revenues that Defendant's bullish statements had led the market to expect during the Class Period. The Company's forecast for the third and fourth quarters 2014 also missed what Defendants had led the market to expect. The release further emphasized that the Company had "near-term work to do to improve [its] utility infrastructure margins and increase the conversion of [its] distributed generation pipeline into backlog," and that "***improvements in [it] UI business***" ***may not be seen until*** "***2015 and beyond***."

44. Later on May 7, 2014, the Company conducted conference call to discuss the financial results for the first quarter 2014 and reduced 2014 guidance. Defendant Hinton again stated that PowerSecure's utility infrastructure division had a revenue shortfall and operating inefficiencies that "negatively impacted the gross margins and [its] bottom line" because the

Company "miss timed the shift in resources from less profitable customers to more profitable customers, as revenues from the new customers . . . did not materialize fast enough to sustain the margins that [PowerSecure was] hoping to achieve." Significantly, Defendants Hinton and Hutter admitted, in pertinent part, as follows:

> [Hinton:] As we move[d] through 2013 we and you, as well as investors could see that the pace of the growth was accelerating, ***but we also saw that the gross margins, the utilization was a significant issue***. And ***we made a conscious decision late in the year to try to slow that growth down and fix these gross margins.*** Again, we missed time there which resulted in this first quarter results.
>
> ***The rapid growth that we had introduced some inefficiencies some new inefficiencies into the business. Again, we remember the situation in the third quarter when we held all the crews associated with a large award that we had won and gross margins dipped, it dipped around 7% if I recall during that – for that particular division***.
>
> ***In the fourth quarter that same customer those crews were in position and able to do new work that was $7.5 million of work with that customer***. And accordingly we had higher utilization rates and higher gross margins across utility services.
>
> As you'll hear later in the call, ***the revenues from that customer did not materialize in the first quarter as we had anticipated***. With the benefit of (inaudible) as we talked earlier ***we want to slowdown the growth of it, fix the operating efficiencies in the business to make sure we have the measures in place with benefit of (inaudible) we probably should have pulled that lever one or two quarters earlier***.
>
> ***We made the decisions to slowdown and pull crews out of one's particular customer and reposition them. Where we reposition them the work did not materialize unfortunately. To a large extent, that's associated with an opportunity with the new customer. And we are just more familiar with the rhythm at which they assign work. We thought would work as we have been in the cycle, we now have a better feel for that***.
>
> *   *   *
>
> [Hutter:] While we saw revenue growth of 17% in the first quarter ***because of the efficiencies in our utility services and our protracted sales cycle times of our larger DG projects, this level of revenues did not provide enough scale to support our margins in the quarter***.
>
> Our two largest business areas DG and utility infrastructure are lumpy businesses. And ***in the first quarter we just did not have enough DG revenue to make up for***

the inefficiencies in our utility infrastructure business, which lead to what are obviously very disappointing results for us.

*   *   *

We saw utility infrastructure growth of 35.2%, ***which reflects our efforts again to slow our growth at a lesser pace than we recently had to slow our growth and focus on profitability within utility services*** and our DG revenues declined 16.5% year-over-year as our team has been focused on pursuing larger projects, which are a bit lumpier.

*   *   *

This year-over-year gross margin decrease was primarily driven by the inefficiencies we've described in utility services as we took actions the shift resources including the equipment and people away from certain lower profit assignments. Our intent was to deploy these resources towards customer opportunity to increase our long-term profitability.

However, we were not successful in redeploying all of the assets, the new assignments in a timely manner as a result of lower than expected revenues from certain customers. These productivity losses caused us to incur higher levels of personnel and equipment cost in our cost of goods sold as a percentage of our revenues, driving the gross margin on our utility services revenue to 5.9% in the first quarter of 2014. Overall utility infrastructure revenue gross margins are 9.9% that includes the consulting fees of that.

This compares to 25.6% for the entire utility infrastructure revenue growth in the first quarter 2013 and an average quarterly gross margin of 19.5% for utility infrastructure for the full year 2013. ***So, you can see that really was just a dramatic drop off there***.

In the past few weeks, we've been digging in, looking very specifically at both our fleet and crew utilization rates, ***both of which jumped to uncomfortable levels in the first quarter and highlight the inefficiencies that we have to correct***. In the first quarter, our fleet expense cost, I'll just give you couple of data points, ***our fleet expense cost increased 10 points as a percentage of revenue compared to recent run rates***.

We saw similar levels of inefficiency with our current utilization as our direct labor cost as a percentage of revenues declined climbed seven percentage points compared to recent run rates. ***These are obviously very substantial increases***, especially in a business that generate a $112 million of revenues last year just in terms of the scale of our operations now is obviously much bigger than it has been in the past.

45. Defendants also engaged in the following colloquy with an analyst from Roth Capital concerning the margin problems sparked by the large utilities customer that they started working with at the end of the second quarter 2013:

> **Philip Shen - Roth Capital**
>
> . . . . your margins had been pretty good throughout 2013 and ***then – were the margins from that one – like did that utility customer specifically or group of utility customers start to kind of put the screws to you guys? Or like did they overnight just say – you know what, we're paying you 30% less? I mean, how did that happen?***
>
> **Sidney Hinton**
>
> I'll be honest. I'll give you the specific colors – public call, right? Anything I say is on record? I can say anything – yes. No, I'm sorry, I was looking at my frantically panicked CFO and head of Investor Relations. ***The fact of the damn situation is we have a big client and we won another big contract from them. But they changed the geographies we were serving, and our people lived in a different part of the state. It'd be like having a contract in California that's serving San Francisco and you win a damn contract in Los Angeles. The people aren't going to drive to work down there every day***.
>
> ***We actually get paid more for the other territory. But it's a question of effectiveness. It's a more dense area; you get paid on units. Can you get enough units done? In other words, you've got new people – and if you saw our results internally, you could see it. I mean, that shift occurred at the end of the second quarter. We knew we were ramping in the third quarter, so we weren't that concerned. We knew that you face that every time you staff up. We faced it again in the fourth quarter, which, again, we expected – but we'd really come to question, heck, what are the gross margins? What's the potential here? What are we measuring ourselves against? Are we beating our heads against a wall? Are we doing something that we just need to learn a better practice for, or is this just the finite opportunity that's there because of the urban nature of the work? But that's exactly the biggest driver***.
>
> The other was that we had a customer, a key that we had – I think we said it specifically, the $7.5 million of work in the fourth quarter, that we then got $1 million of work in the first quarter. They're a great customer. We expect to get a bunch of work from them over the remaining months of this year and over the coming years. We love them. They're a great account; no issue with them at all. We just – we tried to guess the rhythm of how work is released, and ***it's a relatively new account and we just guessed wrong***.

Philip Shen - Roth Capital

Okay. Sidney, that's really helpful. ***So let me just paraphrase what I understand. So for that large client, you guys had been serving them and helping them out for a while. You guys won a new territory, but your crews and your trucks weren't necessarily staffed for that territory. Is that correct?***

Sidney Hinton

Exactly.

Philip Shen – Roth Capital

And so then it's a question of do we – how do we – I mean, did you continue to service that territory but with an outsourced group of –?

Sidney Hinton

No, we basically – we hired people and built up from scratch in that area to serve it. And from the utility's perspective, they gave us the same amount of work; they just changed the geography. So it's not a negative from their perspective. And operationally, candidly, we probably underestimated the negativity of it, just the complexity of basically starting from scratch in a new territory. But, yes, you're right. Your summary is excellent.

Philip Shen - Roth Capital

So did they take away the existing territory and then give you a whole new territory of equal value?

Sidney Hinton

(Multiple speakers) ***They did, and it – on paper, it actually looks better. But I would say that's in an Excel spreadsheet that it looks better. It doesn't look better on our income statement. And either we're not doing our units good – and believe me, our people are working on it night and day around the clock to optimize that. Or it might be a hell of a lot of work there, but the environment may be just too difficult for us to be profitable***.

Philip Shen - Roth Capital

Now, have you gone back to that utility to try and get the original territory back? I mean, is that a possibility? And also –

Sidney Hinton

No. Unfortunately, ***they assign these territories for several years at a time*** and they make strategic decisions around that. And truthfully, and unfortunately, your workforce kind of lives in those territories, so they just change the company they work for. The utility doesn't really get hit with it as bad. ***And I would say somebody's probably getting the benefit of our damn good crews that we had trained, and then we're dealing with the consequences of somebody else's poor training and management that we're now trying to build something out of***.

Philip Shen - Roth Capital

Okay, so you actually lost a lot of crews as well that were in that good territory that original territory.

Sidney Hinton

They literally live way away. I mean, they weren't going to commute to work. They had been able to – they didn't have a per diem for overnight because they lived at home, and they weren't interested in being migratory. And some – a lot of our crews are, so it's not –.

Philip Shen - Roth Capital

So on a kind of magnitude basis, if last year's revenues were $100 million-plus in revs for utility, I mean, ***what's the size of this client relative to the overall 2013 kind of base***?

Sidney Hinton

10%.

Philip Shen - Roth Capital

10%? Okay.

Sidney Hinton

Roughly, yes.

Philip Shen - Roth Capital

All right. Now, was there any other – were there any other issues at all? I mean, is this the main one, or is there a risk of –

Sidney Hinton

It's that issue and not getting the – it's that issue – it's very, very simple. It's that issue and then the fact that we staffed – there's actually more work in this territory. So we've bought the trucks and staffed for it. But if you're getting paid – I mean, just because somebody's selling – we could sell a gazillion more units, but if we're selling them for $1.00 and it's costing us $1.10, that ain't a good thing.

Philip Shen – Roth Capital

Let's explore that for a moment.

Sidney Hinton

But ***we slowed down*** (multiple speakers) ***and we still had – we slowed down, because we questioned – can we really make money on these units? We slowed down to do it with our best people and see. But we still had the fleet, and we were hoping to redeploy the fleet elsewhere with a nice opportunity that we won verbally but not put into backlog or – really, I don't even think we've announced i***t.

Chris Hutter

Yes, it was in backlog.

Sidney Hinton

I'm not talking about – I'm talking about the –

Chris Hutter

No, we haven't. We haven't yet.

Sidney Hinton

Yes. Yes.

Chris Hutter

Okay; I'm sorry.

Sidney Hinton

Sorry, that's the downside of a live call. But, anyway, we couldn't make the – we couldn't move the fleet. So we're stuck with the fleet not utilized, and the people we are utilizing, we're probably losing a nickel out of every dollar. But that's one thing – and then at the same time, not having the work we had anticipated from the one –

46. Defendant Hinton also attempted to explain that the timeline for conversion for larger distributed generation projects was "longer than what [Defendants] had experienced" as the Company was "more accustomed to chasing, winning and forecasting" smaller projects.

47. Analysts at Baird, Roth, Lake Street, Maxim and Craig-Hallum – all underwriters in the August 16th stock offering – immediately slashed their ratings and price targets on PowerSecure stock as follows:

- Lake Street in its report entitled "Too Big Of A Bite Causing Bad Indigestion," reduced its price target to $12 per share;

- In its report downgrading its stock rating to Hold from Buy, and "removing [its] prior $30 price target," Maxim said it was "blindsided by 1Q14's results, particularly given the cadence, backlog, and outlook provided following 4Q13 results back in March of this year."

- Roth's report downgrading its rating to Neutral from Buy and its price target from $30 to $10 emphasized that "[a]fter growing its DG and UI businesses at 30% and 66% CAGRs, respectively, over the past three years, management was perhaps too focused on growth and did not necessarily have the best systems in place to monitor its core business," and that while PowerSecure may have been "dealt a bad hand with UI, . . . the company likely could have managed the situation better" and characterized the Company's operating issues as both "avoidable" and "preventable – resulting in a loss of investor confidence."

- Craig-Hallum's report entitled "UI & DG Challenges Bring An Abrupt Change To Outlook – POWR's Operational Response Will Take Time – Lowering Rating To Hold And Price Target To $13," emphasized that the "major surprise along with results was the weak guidance provided – an abrupt change from its previous outlook and positive trends within its segments, in particular Utility Infrastructure (UI)."

- Baird analyst Ben Kallo slashed his price target on PowerSecure to $17.00 (from $29.00), stating: "POWR missed estimates across the board and issued lower-than-expected 2014 guidance due to several factors."

48. On this news, the price of PowerSecure stock was hammered, falling $11.60 per share ***– more than 62% -*** on extremely high trading volume of more than 10.4 million shares trading, closing at $7 per share on May 8th.

49. The market for PowerSecure common stock was open, well-developed and efficient at all relevant times. As a result of these materially false and misleading statements and omissions as set forth above, PowerSecure common stock traded at artificially inflated prices during the Class Period. Plaintiff and the other members of the Class purchased or otherwise

acquired PowerSecure common stock relying upon the integrity of the market price of PowerSecure common stock and market information relating to PowerSecure, and have been damaged thereby.

50. During the Class Period, Defendants materially misled the investing public, thereby inflating the price of PowerSecure common stock, by publicly issuing false and misleading statements and omitting to disclose material facts necessary to make Defendants' statements, as set forth herein, not false and misleading. Said statements and omissions were materially false and misleading in that they failed to disclose material adverse information and misrepresented the truth about the Company, its business and operations, as alleged herein.

51. At all relevant times, the material misrepresentations and omissions particularized in this Complaint directly or proximately caused, or were a substantial contributing cause, of the damages sustained by Plaintiff and the other members of the Class. As described herein, during the Class Period, Defendants made or caused to be made a series of materially false or misleading statements about PowerSecure's business, prospects, and operations. These material misstatements and omissions had the cause and effect of creating, in the market, an unrealistically positive assessment of PowerSecure and its business, prospects, and operations, thus causing the Company's securities to be overvalued and artificially inflated at all relevant times. Defendants' materially false and misleading statements during the Class Period resulted in Plaintiff and the other members of the Class purchasing PowerSecure common stock at artificially inflated prices, thus causing the damages complained of herein. When the true facts about the Company were revealed to the market, the inflation in the price of PowerSecure common stock was removed, and the price of PowerSecure common stock declined dramatically, causing losses to Plaintiff and the other members of the Class.

NO SAFE HARBOR

52. PowerSecure's "Safe Harbor" warnings accompanying its reportedly forward-looking statements ("FLS") issued during the Class Period were ineffective to shield those statements from liability. Because most of the false and misleading statements related to existing facts or conditions, the Safe Harbor has no applicability.

53. The Defendants are also liable for any false or misleading FLS pleaded because, at the time each FLS was made, the speaker knew the FLS was false or misleading and the FLS was authorized and/or approved by an executive officer and/or director of PowerSecure who knew that the FLS was false. In addition, the FLS were contradicted by existing, undisclosed material facts that were required to be disclosed so that the FLS would not be misleading. Finally most of the purported "Safe Harbor" warnings were themselves misleading because they warned of "risks" that had already materialized or failed to provide meaningful disclosures of the relevant risks.

ADDITIONAL SCIENTER ALLEGATIONS

54. As alleged herein, Defendants acted with scienter in that Defendants knew that the public documents and statements issued or disseminated in the name of the Company were materially false and misleading; knew that such statements or documents would be issued or disseminated to the investing public; and knowingly and substantially participated or acquiesced in the issuance or dissemination of such statements or documents as primary violations of the federal securities laws. As set forth elsewhere herein in detail, Defendants, by virtue of their receipt of information reflecting the true facts regarding PowerSecure, their control over, and/or receipt of modification of PowerSecure's allegedly materially misleading misstatements and/or their associations with the Company which made them privy to confidential proprietary information concerning PowerSecure, participated in the fraudulent scheme alleged herein in

order to facilitate the sales of millions of dollars of common stock by insiders at artificially inflated prices.

55. For instance, in a January 2, 2014 letter to the SEC, Defendants emphasized that Defendant Hinton "is the founder of our business and manages the company ***through information he receives from his direct interactions with his numerous direct reports, including multiple sales leaders, product leaders, operations leaders, and functional leaders***." In another letter to the SEC during the Class Period explaining how the Company's internal forecasting was prepared and reported to its Chief Operating Decision Maker ("CODM"), [Defendant Hinton], Defendants stated, in pertinent part, as follows:

> ***We . . . prepare a forecast of our financial results on a quarterly basis. Our forecast combines a "bottom-up" revenue submission from salespeople and product and service leaders, with "top-down" judgments about the revenue and cost assumptions utilized in the forecast***. . . . Our forecasting process works as follows:

- Our product and service leaders and sales team submit their expected sales, including expected revenues and gross margins by job/project/customer for the upcoming quarters and year or years to our accounting and finance staff, which compiles and organizes these raw submissions. . . .

- The submitted sales information is reviewed, including each job/project/customer opportunity, by our CODM and our Chief Financial Officer with our product and service leaders and our sales leaders during our quarterly business reviews, in order to understand the expected levels of revenues and gross margins in each of our product and service areas. This information is not compared against budgets or quotas, because we do not create or use such metrics.

- Our Chief Financial Officer then makes modifications to the raw submissions regarding revenues and gross margins, based on the quarterly business review discussions about each individual job/project/customer opportunity, and the Chief Financial Officer's judgments about the likelihood of the various jobs being successfully sold or other sales opportunities coming to fruition. Judgments are also made by the Chief Financial Officer with regard to the submitted gross margins, the submitted timing of each project, and the submitted revenues and costs of sales.

- The Chief Financial Officer forecasts the remaining elements of the business, including costs of sales that are not related to individual jobs, operating expenses and overheads by line item, (across all areas of the business), the balance sheet, cash flow statement, financing costs, and other detailed elements of the business. This additional information is combined with the modified sales and gross margin information referenced in in the foregoing bullet to complete the forecast.

- Our Chief Financial Officer then reviews this forecast with our CODM. . . .

APPLICABILITY OF PRESUMPTION OF RELIANCE: FRAUD-ON-THE-MARKET DOCTRINE

56. At all relevant times, the market for PowerSecure common stock was an efficient market for the following reasons, among others:

(a) PowerSecure stock met the requirements for listing, and was listed and actively traded on the NYSE, a highly efficient and automated market;

(b) according to the Company's Form 10-Q filed May 7, 2014, the Company had more than 23.3 million shares outstanding. During the Class Period, on average, more than 256,000 shares of PowerSecure stock were traded on a daily basis, demonstrating a very active and broad market for PowerSecure stock and permitting a very strong presumption of an efficient market;

(c) PowerSecure purported to be qualified to file a less comprehensive Form S-3 registration statement with the SEC that is reserved, by definition, to well-established and largely capitalized issuers for whom less scrutiny is required;

(d) as a regulated issuer, PowerSecure filed periodic public reports with the SEC;

(e) PowerSecure regularly communicated with public investors *via* established market communication mechanisms, including regular disseminations of press releases on the national circuits of major newswire services, the Internet and other wide-ranging public disclosures, such as communications with the financial press and other similar reporting services;

(f) PowerSecure was followed by many securities analysts who wrote reports that were distributed to the sales force and certain customers of their respective firms during the Class Period. Each of these reports was publicly available and entered the public marketplace;

(g) numerous National Association of Securities Dealers member firms were active market-makers in PowerSecure stock at all times during the Class Period; and

(h) unexpected material news about PowerSecure was rapidly reflected in and incorporated into the Company's stock price during the Class Period.

57. As a result of the foregoing, the market for PowerSecure common stock promptly digested current information regarding PowerSecure from publicly available sources and reflected such information in the price of PowerSecure stock. Under these circumstances, all purchasers of PowerSecure common stock during the Class Period suffered similar injury through their purchase of PowerSecure common stock at artificially inflated prices, and a presumption of reliance applies.

LOSS CAUSATION

58. During the Class Period, as detailed herein, Defendants made false and misleading statements, and omitted material information, concerning PowerSecure's business fundamentals and engaged in a scheme to deceive the market. By artificially inflating the price of PowerSecure stock, Defendants deceived Plaintiff and the Class and caused them losses when the truth was revealed. When Defendants' prior misrepresentations and fraudulent conduct became apparent to the market, the price of PowerSecure stock fell precipitously, as the prior artificial inflation came out of the stock price. As a result of their purchases of PowerSecure securities during the Class Period, Plaintiff and other members of the Class suffered economic loss, *i.e.*, damages, under the federal securities laws.

CLASS ACTION ALLEGATIONS

59. This is a class action on behalf of those who purchased or otherwise acquired PowerSecure common stock during the Class Period, inclusive, excluding Defendants (the "Class"). Excluded from the Class are officers and directors of the Company as well as their

families and the families of the Defendants. Class members are so numerous that joinder of them is impracticable.

60. Common questions of law and fact predominate and include whether Defendants: (a) violated the Exchange Act; (b) omitted and/or misrepresented material facts; (c) knew or recklessly disregarded that their statements were false; (d) artificially inflated the price of PowerSecure common stock; and (e) the extent of and appropriate measure of damages.

61. Plaintiff's claims are typical of those of the Class. Prosecution of individual actions would create a risk of inconsistent adjudications. Plaintiff will adequately protect the interests of the Class. A class action is superior to other available methods for the fair and efficient adjudication of this controversy.

COUNT I

For Violation of Section 10(b) of the Exchange Act and Rule 10b-5 Against All Defendants

62. Plaintiff repeats and realleges the above paragraphs as though fully set forth herein.

63. Throughout the Class Period, Defendant PowerSecure and the Individual Defendants, in pursuit of their scheme and continuous course of conduct to inflate the market price of PowerSecure common stock, had the ultimate authority for making, and knowingly or recklessly made, materially false or misleading statements or failed to disclose material facts necessary to make the statements made, in light of the circumstances under which they were made, not misleading.

64. During the Class Period, Defendant PowerSecure and the Individual Defendants, and each of them, carried out a plan, scheme, and course of conduct using the instrumentalities of interstate commerce and the mails, which was intended to and, throughout the Class Period did:

(a) artificially inflate and maintain the market price of PowerSecure common stock; (b) deceive the investing public, including Plaintiff and other Class members, as alleged herein; (c) cause Plaintiff and other members of the Class to purchase PowerSecure common stock at inflated prices; and (d) cause them losses when the truth was revealed. In furtherance of this unlawful scheme, plan and course of conduct, Defendant PowerSecure and the Individual Defendants, and each of them, took the actions set forth herein, in violation of §10(b) of the Exchange Act and Rule 10b-5, 17 C.F.R. §240.10b-5. All Defendants are sued either as primary participants in the wrongful and illegal conduct charged herein or as controlling persons as alleged below.

65. In addition to the duties of full disclosure imposed on Defendant PowerSecure and the Individual Defendants as a result of their affirmative false and misleading statements to the investing public, these Defendants had a duty to promptly disseminate truthful information with respect to PowerSecure's operations and performance that would be material to investors in compliance with the integrated disclosure provisions of the SEC, including with respect to the Company's revenue and earnings trends, so that the market price of the Company's securities would be based on truthful, complete and accurate information. SEC Regulations S-X (17 C.F.R. §210.01, *et seq.*) and S-K (17 C.F.R. §229.10, *et seq.*).

66. Defendant PowerSecure and the Individual Defendants had actual knowledge of the misrepresentations and omissions of material facts set forth herein or acted with reckless disregard for the truth in that they failed to ascertain and disclose such facts, even though such facts were either known or readily available to them.

67. As a result of the dissemination of the materially false and misleading information and failure to disclose material facts as set forth above, the market price of PowerSecure common stock was artificially inflated during the Class Period. In ignorance of the fact that the market

price of PowerSecure common stock was artificially inflated, and relying directly or indirectly on the false and misleading statements made knowingly or with deliberate recklessness by Defendant PowerSecure and the Individual Defendants, or upon the integrity of the market in which the shares traded, Plaintiff and other members of the Class purchased PowerSecure stock during the Class Period at artificially high prices and, when the truth was revealed, were damaged thereby.

68. Had Plaintiff and the other members of the Class and the marketplace known of the true facts, which were knowingly or recklessly concealed by Defendant PowerSecure and the Individual Defendants, Plaintiff and the other members of the Class would not have purchased or otherwise acquired their PowerSecure shares during the Class Period, or if they had acquired such shares during the Class Period, they would not have done so at the artificially inflated prices which they paid.

69. By virtue of the foregoing, Defendant PowerSecure and the Individual Defendants have violated §10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder. 17 C.F.R. §240.10-5.

COUNT II

For Violation of §20(a) of the Exchange Act
Against the Individual Defendants

70. Plaintiff repeats and realleges the above paragraphs as though fully set forth herein.

71. The Individual Defendants had control over PowerSecure and made the material false and misleading statements and omissions on behalf of PowerSecure within the meaning of §20(a) of the Exchange Act as alleged herein. By virtue of their executive positions and their culpable participation, as alleged above, the Individual Defendants had the power to influence and control and did, directly or indirectly, influence and control the decision making of the Company,

including the content and dissemination of the various statements which Plaintiff contends were false and misleading. The Individual Defendants were provided with or had unlimited access to the Company's internal reports, press releases, public filings, and other statements alleged by Plaintiff to be misleading prior to or shortly after these statements were issued, and had the ability to prevent the issuance of the statements or cause them to be corrected.

72. In particular, The Individual Defendants had direct involvement in and responsibility over the day-to-day operations of the Company and, therefore, are presumed to have had the power to control or influence the particular transactions giving rise to the securities violations as alleged herein.

73. By reason of such wrongful conduct, The Individual Defendants are liable pursuant to §20(a) of the Exchange Act. As a direct and proximate result of their wrongful conduct, Plaintiff and the other members of the Class suffered damages in connection with their purchases of the Company's common stock during the Class Period.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff, on behalf of herself and the Class, prays for judgment as follows:

A. Determining that this action is a proper class action, designating Plaintiff as Lead Plaintiff and certifying Plaintiff as a class representative under Rule 23 of the Federal Rules of Civil Procedure and Plaintiff's counsel as Lead Counsel;

B. Determining that this action is a proper class action;

C. Awarding compensatory damages in favor of Plaintiff and the other Class members against all Defendants, jointly and severally, for all damages sustained as a result of Defendants' wrongdoing, in an amount to be proven at trial, including interest thereon;

D. Awarding Plaintiff and the Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees; and

E. Awarding such other and further relief as the Court may deem just and proper.

JURY DEMAND

Plaintiff demands a trial by jury.

DATED: July 8, 2014

/s/ L. BRUCE McDANIEL

L. BRUCE McDANIEL
McDANIEL & ANDERSON, LLP
P.O. Box 58186
Raleigh, NC 27658
Telephone: 919/872-3000
919/790-9273 (fax)
mcdas@mcdas.com
State Bar No. 5025

ROBBINS GELLER RUDMAN
& DOWD LLP
SAMUEL H. RUDMAN
MARY K. BLASY
58 South Service Road, Suite 200
Melville, NY 11747
Telephone: 631/367-7100
631/367-1173 (fax)
srudman@rgrdlaw.com
mblasy@rgrdlaw.com

LAW OFFICES OF MARC S. HENZEL
MARC S. HENZEL
431 Montgomery Avenue, Suite B
Merion Station, PA 19066
Telephone: 610/660-8000
610/660-8080 (fax)
mhenzel@henzellaw.com

Attorneys for Plaintiff

CERTIFICATION OF NAMED PLAINTIFF
PURSUANT TO FEDERAL SECURITIES LAWS

Sandra Taylor (“ plaintiff ”) declares, as to the claims asserted under the Federal Securities Laws, that:

1. Plaintiff has reviewed the complaint prepared by counsel and is willing to serve as a lead or named plaintiff in the Action on the basis of the allegations in that complaint or a substantively similar complaint or amended complaint to be filed. Plaintiff retains the Law Offices of Marc S. Henzel and such co-counsel it deems appropriate to associate with to pursue such action on a contingent fee basis.

2. Plaintiff did not purchase the Security that is the subject of the complaint at the direction of plaintiff’s counsel or in order to participate in any private action arising under the Federal Securities Laws.

3. Plaintiff is willing to serve as a lead or representative party, either individually or as part of a group on behalf of a class, including providing testimony at deposition and trial, if necessary.

4. Plaintiff has made no transaction(s) during the Class Period in the stock Power secure International, Inc. that are the subject of this action except those set forth below:

DATE	BUY OR SALE	AMOUNT OF SHARES	PRICE PER SHARE
4/29/14	Buy	250	$21.83

5. In the past three years, plaintiff has not sought to serve as a representative party on behalf of a class.

6. Plaintiff will not accept any payment for serving as a representative party on behalf of a class beyond plaintiff’s pro rata share of any recovery, except such reasonable costs and expenses (including lost wages) directly relating to the representation of the Class as ordered or approved by the Court.

7. I declare under penalty of perjury that the foregoing is true and correct. Executed this __24th_ day of June 2014.

____

Sandra Taylor

Signature