

LIME ENERGY CO.  
Form 10-Q  
May 12, 2011  
Table of Contents

vn

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

---

**Form 10-Q**

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

**For the quarterly period ended March 31, 2011**

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

**For the transition period from                      to**

**Commission file number 001-16265**

---

**LIME ENERGY CO.**

(Exact name of registrant as specified in its charter)

Edgar Filing: LIME ENERGY CO. - Form 10-Q

**Delaware**

(State or other jurisdiction of incorporation or organization)

**36-4197337**

(I.R.S. Employer Identification No.)

**1280 Landmeier Road, Elk Grove Village, Illinois 60007-2410**

(Address of principal executive offices, including zip code)

**(847) 437-1666**

(Registrant's telephone number, including area code)

---

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller reporting company

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

23,806,489 shares of the registrant's common stock, \$.0001 par value per share, were outstanding as of May 6, 2011.



Table of Contents

**LIME ENERGY CO.**

**FORM 10-Q**

For The Quarter Ended March 31, 2011

INDEX

	<b>Page Number</b>	
<u>Part I</u>	<u>Financial Information</u>	
<u>ITEM 1.</u>	<u>Financial Statements:</u>	
	<u>Condensed Consolidated Balance Sheets March 31, 2011 (unaudited) and December 31, 2010</u>	2
	<u>Unaudited Condensed Consolidated Statements of Operations Three months Ended March 31, 2011 and 2010</u>	4
	<u>Unaudited Condensed Consolidated Statement of Stockholders' Equity Three Months Ended March 31, 2011</u>	5
	<u>Unaudited Condensed Consolidated Statements of Cash Flows Three Months Ended March 31, 2011 and 2010</u>	6
	<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	8
<u>ITEM 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	14
<u>ITEM 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	23
<u>ITEM 4.</u>	<u>Controls and Procedures</u>	23
<u>Part II.</u>	<u>Other Information</u>	
<u>ITEM 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	24
<u>ITEM 6.</u>	<u>Exhibits</u>	24
	<u>Signatures</u>	25

Table of Contents

## PART I - FINANCIAL INFORMATION

## ITEM 1. Financial Statements

**Lime Energy Co.****Condensed Consolidated Balance Sheets**

(in thousands)

	<b>March 31, 2011 (unaudited)</b>	<b>December 31, 2010 (1)</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 7,877	\$ 13,016
Restricted cash	1,914	1,913
Accounts receivable, net	28,679	26,393
Inventories	877	998
Costs and estimated earnings in excess of billings on uncompleted contracts	9,807	15,417
Prepaid expenses and other	1,216	985
<b>Total Current Assets</b>	<b>50,370</b>	<b>58,722</b>
<b>Net Property and Equipment</b>	<b>3,915</b>	<b>2,940</b>
<b>Long-Term Receivables</b>	<b>421</b>	<b>543</b>
<b>Deferred Financing Costs, Net</b>	<b>28</b>	
<b>Intangibles, Net</b>	<b>5,290</b>	<b>5,444</b>
<b>Goodwill</b>	<b>18,627</b>	<b>18,627</b>
	<b>\$ 78,651</b>	<b>\$ 86,276</b>

Table of Contents**Lime Energy Co.****Condensed Consolidated Balance Sheets**

(in thousands)

	March 31, 2011 (unaudited)	December 31, 2010 (1)
<b>Liabilities and Stockholders Equity</b>		
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 109	\$ 115
Accounts payable	17,802	19,143
Accrued expenses	7,800	10,370
Billings in excess of costs and estimated earnings on uncompleted contracts	769	998
Customer deposits	678	791
<b>Total Current Liabilities</b>	<b>27,158</b>	<b>31,417</b>
<b>Long-Term Debt, less current maturities</b>	<b>386</b>	<b>418</b>
<b>Total Liabilities</b>	<b>27,544</b>	<b>31,835</b>
<b>Stockholders Equity</b>		
Common stock, \$.0001 par value; 50,000,000 shares authorized 23,804,776 and 23,662,172 issued and outstanding as of March 31, 2011 and December 31, 2010, respectively	2	2
Additional paid-in capital	183,488	183,140
Accumulated deficit	(132,383)	(128,701)
<b>Total Stockholders Equity</b>	<b>51,107</b>	<b>54,441</b>
	<b>\$ 78,651</b>	<b>\$ 86,276</b>

*See accompanying notes to condensed consolidated financial statements*

(1) Derived from audited financial statements in the Company's annual report on Form 10-K for the year ended December 31, 2010

Table of Contents

**Lime Energy Co.**  
**Unaudited Condensed Consolidated Statements of Operations**  
(in thousands)

Three Months Ended March 31,	2011	2010
<b>Revenue</b>	\$ 18,980	\$ 11,813
Cost of sales	15,366	9,953
Gross Profit	3,614	1,860
Selling, general and administrative	7,173	6,433
Amortization of intangibles	153	163
<b>Operating loss</b>	(3,712)	(4,736)
<b>Other Income (Expense)</b>		
Interest income	40	50
Interest expense	(10)	(10)
Total other income (expense)	30	40
<b>Net loss</b>	(3,682)	(4,696)
Basic and Diluted Loss Per Common Share	\$ (0.15)	\$ (0.20)
<b>Weighted Average Common Shares Outstanding</b>	23,799	23,592

*See accompanying notes to condensed consolidated financial statements*

Table of Contents**Lime Energy Co.****Unaudited Condensed Consolidated Statement of Stockholders' Equity**

(in thousands)

	<b>Common Shares</b>	<b>Common Stock</b>	<b>Additional Paid-in Capital</b>	<b>Accumulated Deficit</b>	<b>Total Stockholders Equity (Deficit)</b>
<b>Balance, December 31, 2010</b>	<b>23,662</b>	<b>\$ 2</b>	<b>\$ 183,140</b>	<b>\$ (128,701)</b>	<b>\$ 54,441</b>
Share based compensation			348		348
Shares issued for benefit plans and option exercises	143				
Net loss for the three months ended March 31, 2011				(3,682)	(3,682)
<b>Balance, March 31, 2011</b>	<b>23,805</b>	<b>\$ 2</b>	<b>\$ 183,488</b>	<b>\$ (132,383)</b>	<b>\$ 51,107</b>

*See accompanying notes to condensed consolidated financial statements.*

Table of Contents**Lime Energy Co.****Unaudited Condensed Consolidated Statements of Cash Flows****(in thousands)**

<b>Three Months Ended March 31,</b>	<b>2011</b>	<b>2010</b>
<b>Cash Flows From Operating Activities</b>		
Net Loss	\$ (3,682)	\$ (4,696)
Adjustments to reconcile net loss to net cash used in operating activities:		
Provision for (recovery of) bad debt	76	(18)
Share based compensation	348	375
Depreciation and amortization	288	281
Amortization of deferred financing costs	3	
(Gain) loss on disposition of fixed assets	(2)	7
Changes in assets and liabilities:		
Accounts receivable	(2,240)	3,112
Inventories	121	(75)
Costs and estimated earnings in excess of billings on uncompleted contracts	5,610	322
Prepaid expenses and other current assets	(231)	(233)
Accounts payable	(1,341)	(2,338)
Accrued expenses	(2,570)	1,031
Billings in excess of costs and estimated earnings on uncompleted contracts	(229)	347
Other current liabilities	(113)	3
Net cash used in operating activities	(3,962)	(1,882)
<b>Cash Flows From Investing Activities</b>		
Proceeds from sale of property and equipment	2	5
Purchases of property and equipment	(1,109)	(116)
Increase in restricted cash	(1)	(500)
Net cash used in investing activities	(1,108)	(611)
<b>Cash Flows From Financing Activities</b>		
Payments of long-term debt	(38)	(32)
Cash paid for deferred financing costs	(31)	
Net cash used in financing activities	(69)	(32)
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(5,139)</b>	<b>(2,525)</b>
<b>Cash and Cash Equivalents, at beginning of period</b>	<b>13,016</b>	<b>22,870</b>
<b>Cash and Cash Equivalents, at end of period</b>	<b>\$ 7,877</b>	<b>\$ 20,345</b>

Table of Contents

As of March 31,	2011	2010
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for interest	\$ 7	\$ 10

*See accompanying notes to condensed consolidated financial statements.*

Table of Contents

Lime Energy Co.

Notes to Unaudited Condensed Consolidated Financial Statements

**Note 1 Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements (the *Financial Statements*) of Lime Energy Co. ( *Lime Energy* and, together with its subsidiaries, the *Company*, *we*, *us* or *our* ) have been prepared in accordance with Rule 10-01 of Regulation S-X promulgated by the Securities and Exchange Commission (the *SEC* ) and, therefore, do not include all information and footnotes necessary for a fair presentation of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America ( *GAAP* ). In our opinion, however, the *Financial Statements* contain all adjustments, consisting only of normal recurring adjustments, necessary to present fairly our financial position, results of operations and cash flows as of and for the interim periods.

The results of operations for the three months ended March 31, 2011 and 2010 are not necessarily indicative of the results to be expected for the full year.

For further information, refer to the audited financial statements and the related footnotes included in the Lime Energy Co. Annual Report on Form 10-K for the year ended December 31, 2010.

**Note 2 - Share-Based Compensation**

**Stock Options**

A committee of the Board of Directors grants stock options and restricted stock under the Company's 2008 Long Term Incentive Plan, as amended (the *Plan* ). All of the options have been granted at a price equal to or greater than the market price of the Company's stock on the date of grant. Substantially all stock option grants outstanding under the Plan vest ratably over three years and expire 10 years from the date of grant. In addition to the Plan, the Company gave employees the right to purchase shares at a discount to the market price under its employee stock purchase plan ( *ESPP* ). The *ESPP* expired on November 30, 2010, however the Company has requested stockholder approval to authorize a new employee stock purchase plan, which if approved would become effective July 1, 2011 and continue for three years, or until the 300,000 shares allocated to the plan have been exhausted. During the second quarter of 2010 the Company issued options to certain employees that vest upon achievement of certain financial objectives in combination with a minimum market price for its common stock during a five-year period (the *Cliff Options* ). The Company assesses the probability of achieving these objectives at the end of each month and recognizes expense accordingly. In addition to the Plan and the *ESPP*, the Board of Directors grants restricted stock to non-employee directors under the Company's 2010 Non-Employee Director Stock Plan (the *Directors' Plan* ). Restricted stock granted to date under the *Directors' Plan* vest 50% on grant and 50% on the first anniversary of grant if the director is still serving on the Board of Directors on the vesting date.

## Edgar Filing: LIME ENERGY CO. - Form 10-Q

The Company accounts for employee share-based awards in accordance with Accounting Standards Codification (ASC) 718. This pronouncement requires companies to measure the cost of employee service received in exchange for a share-based award based on the fair value of the award at the date of grant, with expense recognized over the requisite service period, which is generally equal to the vesting period of the grant.

Table of Contents

## Lime Energy Co.

## Notes to Unaudited Condensed Consolidated Financial Statements

The following table summarizes the Company's total share-based compensation expense for the three-month periods ended March 31, 2011 and 2010 (in thousands):

Three months ended March 31,	2011	2010
Stock options	\$ 176	\$ 305
Restricted stock	172	55
Employee Stock Purchase Plan		15
	\$ 348	\$ 375

The Company uses an Enhanced Hull-White Trinomial model to value its employee options. The weighted-average, grant-date fair value of stock options granted to employees and the weighted-average significant assumptions used to determine those fair values, using an Enhanced Hull-White Trinomial model for stock options under ASC 718, are as follows:

Three months ended March 31,	2011	2010
Weighted average fair-value per option granted	\$ 1.88	\$ 2.06
Significant assumptions (weighted average):		
Risk-free rate	0.13%	0.07%
Dividend yield	0.00%	0.00%
Expected volatility	82.3%	83.4%
Expected life (years)	6.0	5.9
Expected turn-over rate	11.90%	8.90%
Expected exercise multiple	2.20	2.20

The risk-free interest rate is based on the U.S. Treasury Bill rates at the time of grant. The dividend yield reflects the fact that the Company has never paid a dividend on its common stock and does not expect to in the foreseeable future. The Company estimated the volatility of its common stock at the date of grant based on the historical volatility of its stock. The expected term of the options is based on the simplified method as described in the Staff Accounting Bulletin No. 107, which is the average of the vesting term and the original contract term. The expected turnover rate represents the expected forfeitures due to employee turnover and is based on historical rates experienced by the Company. The expected exercise multiple represents the mean ratio of the stock price to the exercise price at which employees are expected to exercise their options and is based on an empirical study completed by S. Huddart and M. Lang (1996).

# Edgar Filing: LIME ENERGY CO. - Form 10-Q

## Table of Contents

### Lime Energy Co.

#### Notes to Unaudited Condensed Consolidated Financial Statements

Option activity under the Company's stock option plans as of March 31, 2011 and changes during the three months then ended are presented below:

Exercise Price	Number Outstanding at March 31, 2011	Options Outstanding		Options Exercisable	
		Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at March 31, 2011	Weighted Average Exercise Price
\$3.04 - \$4.00	618,052	6.5 years	\$ 3.48	484,721	\$ 3.47
\$4.01 - \$5.00	1,678,603	8.7 years	\$ 4.39	346,456	\$ 4.57
\$5.01 - \$6.00	14,286	8.3 years	\$ 5.32	14,286	\$ 5.32
\$6.01 - \$8.00	878,052	5.6 years	\$ 7.20	866,052	\$ 7.19
\$8.01 - \$10.00	19,569	7.0 years	\$ 9.15	19,569	\$ 9.15
\$10.01 - \$12.00	548,561	6.1 years	\$ 10.85	548,561	\$ 10.85
\$12.01 - \$735.00	8,084	1.4 years	\$ 240.79	8,084	\$ 240.79

The following table summarizes information about stock options outstanding at March 31, 2011:

Exercise Price	Number Outstanding at March 31, 2011	Options Outstanding		Options Exercisable	
		Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at March 31, 2011	Weighted Average Exercise Price
\$3.04 - \$4.00	618,052	6.5 years	\$ 3.48	484,721	\$ 3.47
\$4.01 - \$5.00	1,678,603	8.7 years	\$ 4.39	346,456	\$ 4.57
\$5.01 - \$6.00	14,286	8.3 years	\$ 5.32	14,286	\$ 5.32
\$6.01 - \$8.00	878,052	5.6 years	\$ 7.20	866,052	\$ 7.19
\$8.01 - \$10.00	19,569	7.0 years	\$ 9.15	19,569	\$ 9.15
\$10.01 - \$12.00	548,561	6.1 years	\$ 10.85	548,561	\$ 10.85
\$12.01 - \$735.00	8,084	1.4 years	\$ 240.79	8,084	\$ 240.79

The aggregate intrinsic value of the outstanding options (the difference between the closing stock price on the last trading day of the first quarter of 2011 of \$4.85 per share and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on March 31, 2011 was approximately \$1.6 million. The aggregate intrinsic value of exercisable options as of March 31, 2011 was approximately \$764,000. These amounts will change based on changes in the fair market value of the Company's common stock.



Table of Contents

Lime Energy Co.

Notes to Unaudited Condensed Consolidated Financial Statements

As of March 31, 2011, there was approximately \$874,000 of total unrecognized compensation cost related to stock options which is expected to be recognized over a weighted-average period of 1.0 year and unrecognized cost of \$485,000 related to restricted stock which will be recognized over a weighted-average period of 8.5 months. In addition, there was approximately \$1.3 million of unrecognized expense related to the Cliff Options which may be recognized over the next four years.

**Note 3 Recent Accounting Pronouncements**

There are no recently issued accounting standards that are expected to have a material effect on the Company's financial condition, results of operations or cash flows.

**Note 4 Net Loss Per Share**

The Company computes loss per share under ACS 260 Earnings Per Share, which requires presentation of two amounts: basic and diluted loss per common share. Basic loss per common share is computed by dividing loss available to common stockholders by the number of weighted average common shares outstanding, and includes all common stock issued. Diluted earnings would include all common stock equivalents. The Company has not included the outstanding options or warrants as common stock equivalents in the computation of diluted loss per share for the three months ended March 31, 2011 and 2010 because the effect would be antidilutive.

The following table sets forth the weighted average shares issuable upon exercise of outstanding options and warrants that are not included in the basic and diluted loss per share available to common stockholders because to do so would be antidilutive:

Three months ended March 31,	2011	2010
Weighted average shares issuable upon exercise of outstanding options	3,772,420	2,709,782
Weighted average shares issuable upon exercise of outstanding warrants	795,005	807,696
Total		