

LIME ENERGY CO.
Form 10-K/A
October 11, 2013

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Form 10-K/A

Amendment No. 1

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

For the fiscal year ended: December 31, 2012

**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)

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Delaware
(State or other jurisdiction of incorporation or organization)

36-4197337
(I.R.S. Employer Identification No.)

16810 Kenton Drive, Suite 240, Huntersville, NC
(Address of principal executive offices)

28078-4845
(Zip Code)

Registrant's telephone number, including area code **(704) 892-4442**

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

Title of each class	Name of each exchange on which registered
Common Stock \$0.0001 par value	NASDAQ

Securities registered pursuant to Section 12(g) of the Exchange Act: **None**

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

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

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

Indicate by checkmark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company (as defined in Rule 12b-2 of the Act).

Large Accelerated Filer

Accelerated Filer

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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 Act). Yes No

The aggregate market value of the registrant's common stock held by non-affiliates was \$8,596,386 based on the reported last sale price of common stock on June 29, 2012, which was the last business day of the registrant's most recently completed second fiscal quarter. For purposes of this computation, all executive officers, directors and 10% stockholders were deemed affiliates. Such a determination should not be construed as an admission that such executive officers, directors or 10% stockholders are affiliates.

As of October 9, 2013, there were 25,152,693 shares of common stock, \$0.0001 par value, of the registrant issued and outstanding.

EXPLANATORY NOTE

We are amending our Annual Report on Form 10-K for the year ended December 31, 2012, filed with the Securities and Exchange Commission on July 31, 2013, to include a discussion of the years ended December 31, 2008, 2009 and 2010 in Management's Discussion and Analysis of Financial Condition and Results of Operations. As described below, and in the original filing of this Report, we restated our financial statements for those years, as well as our financial statements for the year ended December 31, 2011 and the quarter ended March 31, 2012. Note 3 of the Notes to Consolidated Financial Statements in Item 15 of the original filing of this Report contained a restatement of all line items in our 2008, 2009 and 2010 financial statements requiring restatement, as well as a reconciliation of those restated amounts to our previously filed financial statements for those years.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that are based on management's current expectation, estimates, and projections about our business and operations. Our actual results may differ materially from those currently anticipated and expressed in such forward-looking statements as a result of numerous factors, including those we discuss under Risk Factors and elsewhere in this report.

Restatement

As discussed in the Explanatory Note at the beginning of this Report, we are restating our financial statements for the years ended December 31, 2008, 2009, 2010 and 2011 and for the quarter ended March 31, 2012. As a consequence of that restatement, we were unable to timely file our Annual Report for the year ended December 31, 2012, and our Quarterly Reports for the quarters ended June 30, 2012, September 30, 2012, and March 31, 2013. This Report contains our restated financial statements for the year ended December 31, 2011, and a reconciliation of those restated financial statements to those we previously filed for the same period, and a restatement of all line items in our 2008, 2009 and 2010 financial statements requiring restatement, as well as a reconciliation of those restated amounts to our previously filed financial statements for those years. Additional information regarding the restatement, the events that necessitated the restatement and our response to those events is contained in the Explanatory Note at the beginning of this Report.

Presentation of Discontinued Operations

The results of our Public Sector and Asset Development businesses have been reported as discontinued operations in the accompanying financial statements; they have been included, however in continuing operations in the financial statements presented in Note 3 Restatement of Financial Statements in order to provide the reader with a better understanding of the changes to the historical financial statements resulting from the restatement. Consistent with the presentation of these businesses in the financial statements, the discussion of the results of operations that follows has included the results of these businesses in discontinued operations for the comparison of 2012 results to 2011 results, while including them in continuing operations for comparisons of 2011 to 2010, 2010 to 2009 and 2009 to 2008.

Overview

General

We are a leader in designing and implementing energy efficiency programs that enable our utility clients to reach their underserved markets and achieve their energy reduction goals. We provide our energy efficiency program delivery services exclusively within the utility sector, and our clients include two of the five largest investor-owned utilities in the country. We focus on deploying direct install energy efficiency solutions for small and mid-size commercial and industrial business programs that improve energy efficiency, reduce energy-related expenditures and lessen the impact of energy use on the environment. Currently, these solutions include energy efficient lighting upgrades and energy efficient mechanical upgrades. Our small business direct install (SBDI) programs provide a cost-effective avenue for our utility clients to offer products and services to a hard-to-reach customer base while satisfying aggressive state-mandated energy reduction goals. The direct install model is a turnkey solution under which we contract with the utility clients to design and market their small and mid-sized efficiency programs within a defined territory, perform the technical audits, sell the solution to the end-use customer and oversee the implementation of the energy efficiency measures. The model makes it easy and affordable for small businesses to upgrade to energy efficiency equipment and is a dependable and cost effective way for our utility clients to achieve their energy efficiency goals.

Approximately 12% of our 2012 revenue was generated from work for the Army Corps of Engineers and from our regional service business. We provide services to the Army Corps of Engineers under its Facility Repair and Renewal (FRR) program. We are one of three contractors qualified to bid for work under this program. As part of this program we provide project investigation, and design-build execution for all types of facility repairs, conversions, renovations, alterations, additions, construction and equipment installation in the federal buildings in the U.S. and U.S. territories. Our regional service business is located in Bethlehem Pennsylvania and offers HVAC service to local commercial and industrial clients. This group has been working with our New Jersey utility program to offer HVAC maintenance services to customers of this utility program who upgrade their HVAC equipment utilizing incentives available through the program.

Revenue and Expense Components

Revenue

We generate the majority of our revenue from the sale of our services and the products that we purchase and resell to our clients.

We charge our utility clients based on an agreed to rate schedule based on the item installed or the savings generated. Our contracts with the Army Corps of Engineers are all fixed-price contracts under which we bill the Army Corps on a monthly basis for work completed in the prior month as specified in the contract. A typical project for a small business utility client can take anywhere from a few hours to a few weeks to complete, whereas our projects for the Army Corps can take six months to two years to complete.

Our revenues are somewhat seasonal with the strongest sales occurring in the second half of the year.

Revenue Recognition

We recognize our revenue when all four of the following criteria are met: (i) persuasive evidence has been received that an arrangement exists; (ii) delivery of the products and/or services has occurred; (iii) the selling price is fixed or determinable; and (iv) collectability is reasonably assured. In addition, we follow the provisions of the SEC's Staff Accounting Bulletin No. 104, *Revenue Recognition*, which sets forth guidelines for the timing of revenue recognition based upon factors such as passage of title, installation, payments and client acceptance. Any amounts received prior to satisfying our revenue recognition criteria are recorded as billings in excess of costs and estimated earnings on uncompleted contracts.

We recognize the revenue utilizing the percentage of completion method of revenue recognition. Under the percentage of completion method we recognize revenue throughout the term of the project based on the percentage of costs incurred. Any anticipated losses on contracts are charged to operations as soon as they are determinable.

Revenue Concentration

During 2012 our three largest utility clients, Niagara Mohawk (National Grid), the New Jersey Board of Public Utilities and Long Island Power, were responsible for 32%, 15% and 12% of our consolidated revenue, respectively, while revenue generated from the Army Corps generated 12% of our consolidated revenue (all figures exclude discontinued operations). During 2011, our two largest utility clients, Niagara Mohawk and the New Jersey Board of Public Utilities, were responsible for 43% and 17% of our consolidated revenue, respectively, while the Army Corps was responsible for 25% of our consolidated revenue.

We expect that contracts with large utilities will continue to be a significant and growing source of revenue for us in the future, while the Army Corps will continue to be responsible for a smaller portion of our total revenue.

Gross Profit

Gross profit equals our revenue less cost of sales. Our cost of sales consists primarily of materials, our internal labor and the cost of subcontracted labor.

Gross profit is a key metric that we use to examine our performance. Gross profit depends in part on the volume and mix of products and services that we sell during any given period. We subcontract the vast majority of our installation and construction work, therefore our cost of goods sold consists almost exclusively of variable costs. Accordingly, our cost of sales will vary directly with changes in revenue.

Selling, General and Administrative Expense

Selling, general and administrative expense includes the following components:

- direct labor and commission costs related to our employee sales force;
- expenses related to our management, supervisory and staff salaries and employee benefits, including the costs of stock-based compensation;

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- costs related to insurance, travel and entertainment, office supplies and utilities;
- costs related to marketing and advertising our products;
- legal and accounting expenses; and
- costs related to administrative functions that serve to support our existing businesses, as well as to provide the infrastructure for future growth.

Amortization of Intangibles

When we acquire other companies we are required to allocate the purchase price between identifiable tangible and intangible assets, with any remaining value allocated to goodwill. The value allocated to intangible assets is amortized over the estimated life of the related asset. The acquisitions we completed within 2006, 2007 and 2008 resulted in approximately \$8.3 million of intangible assets, the substantial majority of which has already been amortized or has been reclassified to discontinued operations. The acquisition of the Zemel Road gas rights also resulted in the creation of an intangible

asset of \$2.6 million. We were amortizing this asset over the 20 year term of the contract; however, during the fourth quarter of 2012 we determined that the fair-market value of our investment in the Zemel Road facility was less than our carrying value. Therefore, as part of reducing the carrying value to the fair-market value, we wrote-off the remaining value of this intangible asset. Based on the value of our remaining intangible assets, we expect to record amortization expense of \$10,000 in 2013, after which our intangible assets will be fully amortized.

Interest Expense, Net

Net interest expense consists of interest expense net of interest income. Net interest expense represents the interest costs associated with our subordinated convertible term notes (including amortization of the related debt discount and issuance costs), the term note used to finance the construction of the Zemel Road generating facility, our line of credit, the mortgage on our headquarters building, and various vehicle loans. We repaid the mortgage in October 2011.

Interest income includes earnings on our invested cash balances and amortization of the discount on our long-term receivables.

General Business Trends and Recent Developments

The trends, events, and uncertainties set out in this section have been identified as those we believe are reasonably likely to materially affect the comparison of historical operating results reported in this report to either other past period results or to future operating results. These trends, events and uncertainties include:

Restatement of Prior Financial Statements

In July 2012, we discovered that certain members of our accounting and operations staff worked together to prematurely recognize revenue, and in some circumstances recognize revenue when no valid customer contract existed. Upon making this discovery, we initiated an in-depth review of all material revenue transactions and discovered that these activities began in 2008. As a result, we have restated our financial statements for the periods from January 2008 through March 31, 2012. The restated annual financial statements are included in the accompanying financial statements, along with information regarding changes to financial statement accounts resulting from the restatement. Restated quarterly financial statements for 2011 and the first quarter of 2012 are included in Quarterly Report on Form 10-Q for the nine-month period ended September 2012. Investors should not rely on previously filed financial statements for the period from January 2008 through March 2012. For additional information regarding the restatement please refer to Note 3 in the accompanying financial statements.

Sale of our ESCO business and shut-down of Lime Energy Asset Development

Most of the projects for public sector clients require that we post surety bonds to insure that we pay our subcontractors and perform our obligations under the contract. Prior to the announcement of the need to restate our financial statements in July 2012, we were able to obtain these bonds without the need to post any type of collateral. After announcing that our prior financial statements should not be relied upon, some

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of the surety companies that had been providing our surety bonds refused to issue any new bonds until our restated financial statements were available, while others started requiring collateral of between 30% and 100% of the amount of the bond. Having recently been awarded a significant number of new public sector contracts that would require bonds, and knowing that we would not be able meet the sureties' collateral requirements without impairing our working capital position, we decided to sell the public sector business. On February 28, 2013, we sold all of the public sector business, except for the FRR contract with the Army Corps of Engineers and our regional HVAC service business located in Bethlehem, Pennsylvania. The portion of the business that was sold is commonly referred to as the ESCO

business because it is the portion whose primary customers were the large energy service companies. This business represented about half of our 2012 revenue. Compared to the utility business that we have retained, the ESCO business was growing at a slower rate, was less profitable and required higher levels of working capital. Utilizing the sale price we received for this business as an indicator of its fair value, we determined that our carrying value of this business exceeded the fair value. Accordingly, we reduced the carrying value to the estimated fair value during the fourth quarter of 2012, incurring a \$3.2 million impairment charge as a result. The ESCO business has been reported as discontinued operations in the accompanying financial statements.

We have also included our Asset Development group in discontinued operations. Lime Energy Asset Development (LEAD) was established in 2010 to develop, construct and operate renewable and alternative energy projects. This group was focused on leveraging the existing engineering and construction expertise contained in our public sector business to secure design-build contracts for projects ranging in size from \$1 million to \$20 million. The Zemel Road landfill-gas to electricity facility was built in part to demonstrate our ability to develop these types of projects. While LEAD found many opportunities to develop projects of the type it was targeting, it was unable to find a source of capital to finance the projects. After having completed an extensive search for a source of capital, and given the decision to sell the public sector business, we decided to shut down the Asset Development business in the fourth quarter of 2012, though we continue to own and operate the Zemel Road facility.

For additional information regarding discontinued operations please refer to Note 8 in the accompanying financial statements.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amount of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of our financial statements. Actual results may differ from these estimates under different assumptions or conditions. Critical accounting policies are defined as those that involve significant judgments and uncertainties, and potentially result in materially different results under different assumptions and conditions. We believe that our most critical accounting policies are limited to those described below. For a detailed discussion on the application of these and other accounting policies, see Note 4 in the notes to our consolidated financial statements.

Use of Estimates

Preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions affecting the reported amounts of assets, liabilities, revenues and expenses and related contingent liabilities. On an on-going basis, we evaluate our estimates, including those related to revenues, bad debts, warranty accrual, income taxes and contingencies and litigation. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

Revenue and Profit Recognition

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Since the acquisition of Applied Energy Management in June 2008, most of our revenue has been recognized using the percentage of completion method of revenue recognition. Under the percentage of completion method, we recognize revenue based on the percentage of costs incurred. Under this method

of revenue recognition, any anticipated losses on contracts are charged to operations as soon as they are determinable.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our clients to make required payments. The allowance is largely based upon specific knowledge of clients from whom collection is determined to be doubtful and our historical collection experience with such clients. If the financial condition of our clients or the economic environment in which they operate were to deteriorate, resulting in an inability to make payments, or if our estimates of certain clients' ability to pay are incorrect, additional allowances may be required. Under certain of our utility contracts, we offer extended payment terms of 12 or 24 months to our small-business customers for the portion of the cost of the work we perform that is not covered by utility incentives. We require that most of these customers provide us with a credit card or e-check authorization that we can charge for their monthly payment. This reduces our administrative cost of invoicing and collecting many small monthly payments and also gives us an earlier indication of a potential collection issue. As these programs have expanded and we have gained additional experience dealing with them we have increased our allowance for doubtful accounts. During 2012 we increased our allowance by \$869 thousand from \$150 thousand to \$1.0 million. As of December 31, 2012, our allowance for doubtful accounts was equal to approximately 11% of our outstanding accounts receivable. We will continue to monitor our collections experience with these small-business customers and adjust our allowance accordingly.

Amortization of Intangibles

We account for acquisitions of companies in accordance with ASC 805, *Accounting for Business Combinations*. We allocate the purchase price to tangible assets and intangible assets based on their fair values, with the excess of purchase price being allocated to goodwill. The determination of the fair values of these intangible assets is based on a number of significant assumptions as determined by us, including evaluations of the future income producing capabilities of these assets and related future expected cash flows or replacement cost of the asset. We also make estimates about the useful lives of the acquired intangible assets. Should different conditions result in the determination that the value of the acquired intangible assets has been impaired, we could incur write-downs of intangible assets, or changes in the estimation of useful lives of those intangible assets. In accordance with ASC 350, *Goodwill and Other Intangible Assets*, goodwill is not amortized, but is subject to annual impairment testing which is discussed in greater detail below.

Intangible assets included acquired technology and software, customer and contractual relationships and gas rights. Acquired technology was initially recorded at its fair value based on the estimated after tax cost to replace the asset and is amortized over its estimated useful life on a straight-line basis. Customer and contractual relationships represent contractual and separable relationships that we have with certain customers and partners. These contractual relationships were initially recorded at their fair value based on the present value of expected future cash flows of the contractual relationships and are amortized over their estimated useful life. The gas rights intangible asset represented the cost of acquiring the gas rights to the Zemel Road landfill. This asset was being amortized over the term of the gas rights agreement, which is 20 years.

All of our intangible assets, other than the technology and software and gas rights, are associated with the public sector business and therefore included in discontinued operations in the accompanying financial statements. Utilizing the price we received in February 2013 for the sale of the ESCO business as an indicator of its fair value, we determined that our carrying value of this business exceeded the fair value as of the end of 2012. In adjusting the carrying value of this business to reflect its indicated fair value we reduced the carrying value of the associated intangibles to \$0 during the fourth quarter of 2012,

which resulted in an impairment charge of \$1.6 million. Also during the fourth quarter of 2012, we reduced the carrying value of the Zemel Road gas rights to \$0 as part of our decision to reduce the carrying value of the Zemel Road assets to their fair-market value which resulted in an impairment charge of \$2.5 million. As of December 31, 2012, the only intangible asset remaining in continuing operations was the technology and software intangible, which will become fully amortized during the first half of 2013.

Impairment Loss

We evaluate all of our long-lived assets, including intangible assets other than goodwill and fixed assets, periodically for impairment in accordance with ASC 360-10-35, Accounting for the Impairment or Disposal of Long-Lived Assets. We record impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amount of those items. Our cash flow estimates are based on historical results adjusted to reflect our best estimate of future market and operating conditions. The net carrying value of assets not recoverable is reduced to fair value. Our estimates of fair value represent our best estimate based on industry trends and reference to market rates and transactions.

Utilizing the price we received in February 2013 for the sale of the ESCO business as an indicator of its fair value, we determined that our carrying value of this business exceeded the fair value as of the end of 2012. Accordingly, we reduced the carrying value to the estimated fair value during the fourth quarter of 2012, incurring a \$3.2 million impairment charge as a result. This charge included \$129 thousand related to the write-off of property, plant and equipment.

During early 2012, the quality and quantity of gas coming from the well field on the Zemel Road landfill began to deteriorate, in part due to a fire in the well field. During the fourth quarter of 2012, we updated our projections for future cash flows from the facility given the lower gas flow rates and higher anticipated operating expenses and determined that the fair-market value was less than our current carrying value. As a result, we recorded a \$3.5 million impairment charge during the fourth quarter to reduce the value of this asset to our estimate of fair-market value. This charge included \$1.1 million related to the write-down of the carrying value of property, plant and equipment.

Goodwill

We have made acquisitions in the past that included a significant amount of goodwill and other intangible assets. In accordance with ASC 350, goodwill is subject to an annual (or under certain circumstances more frequent) impairment test based on its estimated fair value. Estimated fair value is less than value based on undiscounted operating earnings because fair value estimates include a discount factor in valuing future cash flows. Many assumptions and estimates underlie the determination of an impairment loss, including economic and competitive conditions, operating costs and efficiencies. Another estimate using different, but still reasonable, assumptions could produce a significantly different result.

The price we received in February 2013 for the sale of the ESCO business indicated that the carrying value of the assets associated with this business was impaired. In adjusting the carrying value to the indicated fair value, we reduced the value of goodwill associated with this business by \$1.4 million during the fourth quarter of 2012.

During the fourth quarter of 2011 we completed our analyses for the C&I and AEM reporting units and concluded that the implied fair value of the AEM reporting unit, based on the discounted current value of the estimated future cash flows, substantially exceeded the carrying value,

indicating that the

goodwill was not impaired. However, due to a significant decline in the performance of the C&I reporting unit during 2011, we determined that the fair value of its goodwill had declined to \$923,000. As a result, we reduced the carrying value of the goodwill from \$6.7 million to \$923,000, incurring a \$5.8 million impairment loss during the period.

Our utility business was established in 2009 utilizing resources we acquired as part of the acquisition of Applied Energy Management. With the decision to sell most of the original AEM business, while retaining the utility business, we have allocated the goodwill associated with the AEM reporting unit between the public sector business and the utility business based on their relative fair values as of December 31, 2012. The portion of goodwill allocated to the public sector business has been included in discontinued operations in the accompanying financial statements.

During the fourth quarter of 2012, we completed an impairment analysis of the goodwill associated with the utility reporting unit and found that based on the discounted current value of the estimated future cash flows, the implied fair value substantially exceeded the carrying value, indicating that goodwill was not impaired.

We considered various factors in determining the fair value of the testing units, including discounted cash flows from projected earnings, values for comparable companies and the market price of our common stock. We will continue to monitor for any impairment indicators such as underperformance of projected earnings, net book value compared to market capitalization, declining stock price and significant adverse economic and industry trends. In the event that either testing unit does not achieve projected results, or, as the result of changes in facts or circumstances, we could incur an additional goodwill impairment charge in a future period.

Share-Based Compensation

We have stock incentive plans that provide for stock-based employee and director compensation, including the granting of stock options and shares of restricted stock, to certain key employees and non-employee directors. These plans are more fully described in Notes 22 and 23 to our consolidated financial statements. Consistent with ASC 718, *Share-Based Payment*, we record stock compensation expense for equity-based awards granted, including stock options and restricted stock unit grants, over the service period of the equity-based award based on the fair value of the award at the date of grant. We recognized \$1.8 million and \$2.2 million of stock compensation related to employee options expense, employee stock purchase plan and restricted stock grants during 2012 and 2011, respectively.

Results of Operations

Revenue

We generate the majority of our revenue from the sale of our services as well as the sale of the products that we purchase and resell to our clients. All of our revenue is earned in the United States.

We charge our utility customers utilizing an agreed to rate schedule based on the item installed or the savings generated. Our contracts with the Army Corps of Engineers are all fixed-price contracts. Under these fixed-price contracts, we bill the Army Corps on a monthly basis for work

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completed in the prior month as specified in the contract. A typical project for a small business utility customer can take anywhere from a few hours to a few weeks to complete, whereas our projects for the Army Corps can take six months to two years to complete.

Our revenues are somewhat seasonal with the strongest sales occurring in the second half of the year.

Gross Profit

Gross profit equals our revenue less costs of sales. The cost of sales consists primarily of materials, our internal labor and the cost of subcontracted labor.

Gross profit is a key metric that we use to examine our performance. Gross profit depends in part on the volume and mix of products and services that we sell during any given period. Since we subcontract almost all of our construction work to independent contractors there is very little fixed cost included in our cost of sales. The gross margin earned in our different markets and from different programs within markets varies, with our work under the FRR contract generating the lowest margins. The mix of business generated from our various markets and programs will change throughout the year, due in part to varying activity levels under existing programs and the growth of new programs, which will affect our consolidated gross margin.

Selling, General and Administrative Expenses

Selling, general and administrative expenses (SG&A) include the following components:

- direct labor and commission costs related to our employee sales force;
- costs of our management, supervisory and staff salaries and employee benefits, including the costs of stock-based compensation;
- costs related to insurance, travel and entertainment, office supplies and utilities;
- costs related to marketing and advertising our products;
- legal and accounting expenses; and
- costs related to administrative functions that serve to support our existing businesses, as well as to provide the infrastructure for future growth.

Amortization of Intangibles

We incur expenses related to the amortization of identifiable assets that we have capitalized in connection with our acquisitions.

Other Expense

Other expense consists of interest expense, net of interest earned on our investments. Interest expense represents the interest costs and fees associated with our subordinated convertible term notes (including amortization of the related debt discount and issuance costs), our lines of credit, the mortgage on our headquarters building, term notes and various vehicle loans.

Interest income includes earnings on our invested cash balances and amortization of the discount on our long term receivables. We offer certain customers extended payment terms. When we record receivables with payments terms of more than 12 months we are required to discount them using a market rate of interest and amortize the discount over the term of the receivable. This amortization is recognized as interest income.

Twelve-Month Period Ended December 31, 2012

Compared With the Twelve-Month Period Ended December 31, 2011 (restated)

Consolidated Results

	Twelve Months Ended		Change	
	12/31/2012	12/31/2011 (restated)	\$	%
Revenue	\$ 43,412	\$ 41,928	\$ 1,484	3.5%
Cost of sales	35,516	35,221	295	0.8%
Gross profit	7,896	6,707	1,189	17.7%
Selling, general and administrative	24,257	14,607	9,650	66.1%
Amortization of intangibles	257	196	61	31.1%
Restructuring charge		1,281	(1,281)	-100.0%
Impairment loss	3,547		3,547	0.0%
Operating loss	(20,165)	(9,377)	(10,788)	115.0%
Total other (expense) income	(408)	18	(426)	-2366.7%
Loss from continuing operations	(20,573)	(9,359)	(11,214)	119.8%
Loss from operation of discontinued businesses (1)	(11,239)	(9,574)	(1,665)	0.0%
Net Loss	\$ (31,812)	\$ (18,933)	\$ (12,879)	68.0%

The following table presents the percentage of certain items to revenue:

	Twelve Months Ended	
	12/31/2012	12/31/2011 (restated)
Revenue	100.0%	100.0%
Cost of sales	81.8%	84.0%
Gross profit	18.2%	16.0%
Selling, general and administrative	55.9%	34.8%
Amortization of intangibles	0.6%	0.5%
Restructuring charge	0.0%	3.1%
Impairment loss	8.2%	0.0%
Operating loss	-46.5%	-22.4%
Total other income	-0.9%	0.0%
Loss from continuing operations	-47.4%	-22.3%
Loss from operation of discontinued businesses (1)	-25.9%	-22.8%

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Net Loss	-73.3%	-22.3%
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(1) *Includes the results of the Public Sector and Asset Development businesses*

Revenue

Our revenue for the twelve-month period ended December 31, 2012, increased \$1.5 million, or 3.5%, to \$43.4 million from \$41.9 million for the same period during 2011. A \$5.7 million or 19% increase in revenue from our utility business was partially offset by a \$4.8 million decline in revenue generated under the FRR contract. The utility business benefited from a full year of contributions from our program with Long Island Power and the start-up of the Central Hudson and NStar programs, but this was partially offset by lower revenue from the National Grid program. Most of our utility contracts have annual goals. During 2011 we met our goal for National Grid by early fall and were given additional goals to make up for under-performing territories being run by other companies. During 2012, we again met our goal by early fall, but did not receive as much additional goal for the year, contributing to the decline in revenue for this program over the prior year.

Increased revenue contributions from Central Hudson and NStar, in combination with contributions from our new AEP Ohio and Duke Energy contracts and to a lesser extent, the Efficiency Maine contract, are all expected to contribute to higher revenue from the utility business in 2013. We also continue to bid on new contracts in different regions of the country, which if we are successful in winning, could also contribute to increased revenue.

We have two utility contracts up for renewal in 2013: National Grid and New Jersey Direct. We have been the top performer under both of these programs in every year we have been a part of the program, consequently, we believe that there is a good possibility that these contracts will be retained, however, this is not assured. Combined these two contracts were responsible for approximately 60% of our 2012 revenue.

Revenue under the FRR program varies depending on the number of projects we are working on at any particular time and the stage the project is in. We had fewer active projects during 2012 than we did during 2011 and these projects were either wrapping up or in the design phase for much of the year. This all contributed to the decline in revenue under this program for 2012, when compared to 2011. We expect that FRR will generate between \$3 million and \$5 million in revenue during 2013, but we currently have no expectation for this program to generate any significant revenue in 2014.

Revenue from GES-Port Charlotte increased \$622 thousand, to \$893 thousand in 2012 from \$270 thousand in 2011. The facility began generating electricity in November 2011 with sufficient gas flow to operate both generators at capacity. During 2012 the gas flow declined, in part due to a fire in the collection system, to the point where the generators were only able to operate at 60% to 70% of capacity. Charlotte County, the owner of the gas collection system, has recently completed some work on the collection system that has helped to improve the gas flow, however we expect that we will have to invest \$100,000 to \$200,000 to make additional changes to the system in order to increase the gas flow to a level that will permit us to operate our generators at capacity. We are currently seeking proposals for this work and hope to have it completed by the end of September 2013.

Although we expect our quarterly revenue will be higher during 2013 on a year-over-year basis, we expect between 60% and 70% of our revenue will be earned during the second half of the year as new utility programs continue to grow and our FRR projects move from the design phase into construction.

Gross Profit

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Our gross profit increased \$1.2 million, or 17.7%, to \$7.9 million during the twelve months ended December 31, 2012, when compared to the \$6.7 million earned during 2011. Our gross profit margin improved from 16.0% in 2011 to 18.2% in 2012. The increase in the gross margin was the result of a

reduction in the portion of total consolidated revenue generated by the low margin FRR program, combined with an increase in the gross margin earned by the utility business, which benefited from improvements in operating efficiencies. We believe that our gross margin should continue to improve as new utility programs begin to contribute more to our total revenue and we continue to implement improvements to increase efficiencies within the programs.

Selling, General & Administrative Expense

Our SG&A expense increased \$9.7 million, or 66.1%, to \$24.3 million during the twelve months ended December 31, 2012, from \$14.6 million during the year earlier period. SG&A as a percent of revenue increased from 34.8% in 2011 to 55.9% in 2012. Costs related to the restatement and related stockholder lawsuits contributed \$2.8 million to the 2012 increase in SG&A. The balance of the increase in SG&A was due to the start-up of new utility programs and the annualized costs associated with programs started in 2011. As we entered 2012 we were operating under three utility programs: National Grid which started in late 2009, New Jersey Direct, which started in the spring of 2010 and Long Island Power, which began operation during the fourth quarter of 2011. During 2012 we started-up, or were in the process of starting-up: Central Hudson, NStar, AEP Ohio, Duke Energy, and Efficiency Maine. When we start-up a new program we incur several months of expenses before we start to generate any revenue, as we open an office in the territory, hire a program manager and staff, train the staff, prepare a marketing plan and materials and start calling on customers. It usually takes three to six months before a program's revenue reaches the level necessary to generate a profit. During 2012, we had five programs in various stages of start-up, contributing to the increase in SG&A as a percentage of revenue. We expect that SG&A as a percentage of revenue will decline during 2013, as revenue from new programs ramps up. We also expect to incur an additional \$2.0 million to \$2.5 million in costs related to the restatement and stockholder lawsuits during 2013.

Amortization of Intangibles

Amortization expense increased \$61 thousand, to \$257 thousand during 2012, from \$196 thousand during 2011. The increase was due to the inclusion of a full year of amortization expense for the Zemel Road gas rights. The gas rights were written off at the end of 2012, therefore the only remaining intangible asset as of the end of 2012 was technology and software, which will become fully amortized during the first half of 2013.

Restructuring Charge

During 2011, we initiated a restructuring to reduce costs, streamline our organization and better integrate our operations. As part of this we moved our corporate headquarters to Huntersville, North Carolina, sold our former headquarters building in Elk Grove Village, Illinois, and consolidated certain accounting and administrative functions in Huntersville. In connection with this restructuring we incurred a restructuring charge of approximately \$1.3 million consisting primarily of severance related costs and costs associated with the sale of our building. Included in the \$1.3 million charge is approximately \$487 thousand of non-cash share-based compensation expense incurred when the vesting of equity based compensation was accelerated due to involuntary terminations.

Impairment Loss

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During the fourth quarter of 2012, we updated our projections for the Zemel Road landfill-gas to electricity facility based on the first year of operating results and expectations regarding planned improvements to the gas collection system. The discounted expected future cash flows for the facility indicated that the current carrying value of this asset exceeded its estimated fair-market value by \$3.5 million. We recorded an impairment charge of an equal amount during the fourth quarter of 2012 to

reduce the carrying value to our estimated fair-market value. Also, utilizing the price we received for the sale of the ESOC business in February 2013 as an indicator of its fair value, we determined that the carrying value of the assets associated with this business were impaired. In adjusting the carrying value to the fair value we incurred a \$3.2 million impairment charge during the fourth quarter of 2012.

Other Income

Other non-operating expense increased from \$18 thousand of net income during 2011 to \$408 thousand of net expense for 2012. Interest expense increased \$373 during the year-ended December 31, 2012 to \$496 thousand from \$123 thousand during the year-earlier period. The components of interest expense for the years ended December 31, 2012 and 2011 are as follows (in thousands):

Year ended December 31,	2012		2011	
Line of credit	\$	21	\$	17
Term Note		212		15
Mortgage note				15
Subordinated convertible notes		137		
Other		8		7
Change in value of interest rate swap		22		43
Amortization of deferred issuance costs and debt discount		103		32
Total Interest Expense	\$	503	\$	129
Less discontinued operations		7		6
Continuing operations	\$	496	\$	123

Total contractual interest expense (the interest on outstanding loan balances) increased \$324 thousand, to \$378 thousand during 2012 from \$54 thousand in 2011. The increase in contractual interest expense was primarily the result of the term note added in November 2011, and the subordinated convertible notes, which were put in place in October 2012.

We have deferred certain costs associated with the issuance of the term loan, subordinated convertible Notes and our line of credit. These costs are being amortized over the terms of the associated debt. We incurred \$103 thousand and \$32 thousand of amortization expense during 2012 and 2011, respectively.

In December 2011, we entered into an interest rate swap agreement to fix the interest rate on \$1.9 million of the \$3.6 million original balance on the term note. This interest rate swap was not designated for hedge accounting under ASC 815, therefore we record changes in its fair value as non-operating interest income or expense with an offsetting entry to a swap asset or swap liability. We recorded expense of \$22 thousand and \$43 thousand due to a decline in the fair-market value of this interest rate swap during 2012 and 2011, respectively.

Our interest income decreased \$53 thousand to \$88 thousand during 2012, from \$141 thousand during 2011. All of the income recorded during 2012 was amortization of the discount on our long-term receivables, while approximately \$137 thousand of the 2011 interest income was amortization of the discount on our long-term receivables. The decline in amortization is due to a reduction in our long-term receivables, which had historically been used by our C&I customers. We expect these balances to increase in the future due to increased use of extended payment terms by customers under some of our utility programs.

Twelve-Month Period Ended December 31, 2011(restated)

Compared With the Twelve-Month Period Ended December 31, 2010 (restated)

Consolidated Results

	Twelve Months Ended			Change	
	12/31/2011 (restated) (1)	12/31/2010 (restated)		\$	%
Revenue	\$ 99,373	\$ 83,341	\$ 16,032	19.2%	
Cost of sales	82,400	65,542	16,858	25.7%	
Gross profit	16,973	17,799	(826)	-4.6%	
Selling, general and administrative	28,156	25,753	2,403	9.3%	
Amortization of intangibles	635	589	46	7.8%	
Restructuring charge	1,281		1,281	0.0%	
Impairment loss	5,846		5,846	0.0%	
Operating loss	(18,945)	(8,543)	(10,402)	121.8%	
Total other (expense) income	12	172	(160)	-93.0%	
Net Loss	(18,933)	(8,371)	(10,562)	126.2%	

The following table presents the percentage of certain items to revenue:

	Twelve Months Ended	
	12/31/2011 (restated) (1)	12/31/2010 (restated)
Revenue	100.0%	100.0%
Cost of sales	82.9%	78.6%
Gross profit	17.1%	21.4%
Selling, general and administrative	28.3%	30.9%
Amortization of intangibles	0.6%	0.7%
Restructuring charge	1.3%	0.0%
Impairment loss	5.9%	0.0%
Operating loss	-19.1%	-10.3%
Total other income	0.0%	0.2%
Net Loss	-19.1%	-10.0%

(1) 2011 consolidated results as originally filed in the Form 10-K, presented the Public Sector and Asset Development businesses as discontinued operations. For the comparison of 2011 consolidated results to 2010 consolidated results in the Form 10-K/A, presentation is made on a pre-discontinued operations basis. This was done for improved comparability purposes.

Revenue

Our revenue for the twelve-month period ended December 31, 2011, increased \$16.0 million, or 19.2%, to \$99.4 million from \$83.3 million for the same period during 2010. During 2011 revenue from our utility clients, the FRR contract and our Public Sector clients increased approximately 63%, 100% and 3%, respectively, as a result of new contracts in these areas. These increases were partially offset by a 37% decline in revenue from our C&I clients. The economic environment during 2011 continued to cause many of our C&I clients to postpone decisions to move forward with significant projects. Revenue from our C&I clients in banking, an industry that has been responsible for a significant portion of our C&I revenue in prior years, saw significant contraction during 2011.

GES-Port Charlotte contributed revenue of approximately \$270 thousand during 2011 from the startup of the Zemel Road generating facility during the fourth quarter of the year.

Gross Profit

Our gross profit declined \$826 thousand, or 4.6%, to \$17.0 million during the twelve months ended December 31, 2011, when compared to the \$17.8 million earned during 2010. Our gross profit margin declined from 21.4% in 2010 to 17.1% in 2011. The decline in our gross profit was largely due to a 42% decline in the gross profit earned from our C&I market, which was impacted by lower revenue and an increase in competition during the period. During the year, many of our larger C&I clients, particularly banking clients, deferred significant retrofit projects, as a result most of our revenue from this market was derived from smaller, regional clients, where we had to compete with local contractors willing to accept lower margins in order to win the work.

Selling, General & Administrative Expense

Our SG&A expense increased \$2.4 million, or 9.3%, to \$28.2 million during the twelve months ended December 31, 2011 from \$25.8 million during the year earlier period. SG&A as a percent of revenue declined from 30.9% in 2010 to 28.3% in 2011, as SG&A expense grew at a slower rate than revenue. The \$2.4 million increase in SG&A expense during 2011 was primarily driven by higher expense associated with our utility program management and asset development businesses, partially offset by lower SG&A expense from our C&I market and corporate overhead. SG&A expense for the utility program management business increased at a slightly slower rate than the increase in revenue for this business as we staffed up for the new Long Island Power contract and expanded the National Grid and New Jersey Direct programs. Our Asset Development activities were new in 2010, so the increase in SG&A for Asset Development was the result of inclusion of a full year of expense as well as an expansion of our marketing efforts in this area.

SG&A expense for our C&I market and corporate overhead for 2011 declined by approximately \$2 million when compared to 2010 levels. These savings were largely due to the restructuring implemented in the middle of 2011.

Amortization of Intangibles

Amortization expense increased \$46 thousand, to \$635 thousand during 2011, from \$589 thousand during 2010. The increase was due to a scheduled increase in the amortization of certain

intangibles associated with the acquisition of Applied Energy Management, and to the inclusion of amortization of the Zemel Road gas rights.

Restructuring Charge

During 2011, we initiated a restructuring to reduce costs, streamline our organization and better integrate our operations. As part of this we moved our corporate headquarters to Huntersville, North Carolina, sold our building in Elk Grove Village, Illinois and consolidated certain accounting and administrative functions in Huntersville. In connection with this restructuring we incurred a restructuring charge of approximately \$1.3 million consisting primarily of severance-related costs and costs associated with the sale of our building. Included in the \$1.3 million charge is approximately \$487 thousand of non-cash share-based compensation expense incurred when the vesting of equity based compensation was accelerated due to involuntary terminations.

Impairment Loss

During the fourth quarter of 2011 we completed an analysis of our C&I reporting unit and determined, that due to the significant decline its performance, that the value of its goodwill had declined to \$923,000. To reduce the carrying value of its goodwill from \$6.7 million, we recorded a \$5.8 million, non-cash impairment loss.

Other Income

Other non-operating income declined \$160 thousand to \$12 thousand during the twelve months ended December 31, 2011 from \$172 thousand during the twelve months ended December 31, 2010. Interest expense increased \$96 thousand during 2011 to \$129 thousand from \$33 thousand during 2010. The components of interest expense for the years ended December 31, 2011 and 2010 are as follows (in thousands):

	Year ended December 31,	
	2011	2010
Line of credit	\$ 17	\$ 20
Term note payable	15	13
Mortgage	15	20
Other	7	13
Total contractual interest	54	33
Amortization of deferred issuance costs and debt discount	32	
Decrease in value of interest rate swap	43	
Total Interest Expense	\$ 129	\$ 33

Total contractual interest expense (the interest on outstanding loan balances) increased \$21,000, from \$33,000 in 2010 to \$54,000 in 2011. The increase in contractual interest expense was the result of unused line fees associated with the new line of credit established in March 2011 and a new term loan secured in November 2011 to finance the Zemel Road landfill-gas to electricity generating facility. We repaid our mortgage in October 2011, which resulted in the decline in the mortgage interest expense during the period.

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During 2011, we deferred certain costs associated with the issuance of the term loan and our line of credit. These costs are being amortized over the terms of the associated debt. During 2011, we recognized \$32 thousand of amortization expense.

In December 2011, we entered into an interest rate swap agreement to fix the interest rate on \$1.9 million of the \$3.6 million term note. This interest rate swap was not designated for hedge accounting under ASC 815, therefore we record changes in its fair value as non-operating interest income or expense with an offsetting entry to a swap asset or swap liability. During the year ended December 31, 2011, we recorded expense of \$43 thousand due to a decline in the fair market value of this interest rate swap.

Our interest income decreased \$64 thousand to \$141 thousand during 2011 from \$205 thousand during 2010. Approximately \$137 thousand of the 2011 interest income was amortization of the discount on our long-term receivables, a decrease of \$24 thousand, or 15.0%, from the \$161 thousand recognized during 2010. The balance of the decrease in interest income was due to lower average invested balances during the period.

Twelve-Month Period Ended December 31, 2010 (restated)

Compared With the Twelve-Month Period Ended December 31, 2009 (restated)

Consolidated Results

	Twelve Months Ended		Change	
	12/31/2010 (restated)	12/31/2009 (restated)	\$	%
Revenue	\$ 83,341	\$ 65,811	\$ 17,530	26.6%
Cost of sales	65,542	49,830	15,712	31.5%
Gross profit	17,799	15,981	1,818	11.4%
Selling, general and administrative	25,753	24,009	1,744	7.3%
Amortization of intangibles	589	1,221	(632)	-51.8%
Impairment loss		2,652	(2,652)	-100.0%
Operating loss	(8,543)	(11,901)	3,358	-28.2%
Total other (expense) income	172	(3,073)	3,245	-105.6%
Loss from continuing operations	(8,371)	(14,974)	6,603	-44.1%
Loss from operation of discontinued business		(1,786)	1,786	100.0%
Loss before income taxes	(8,371)	(16,760)	8,389	-50.1%
Income tax benefit		1,034	(1,034)	100.0%
Net Loss	\$ (8,371)	\$ (15,726)	\$ 7,355	-46.8%
Preferred Dividend		(1,499)	1,499	100.0%
Net Loss Available to Common	\$ (8,371)	\$ (17,225)	\$ 8,854	-51.4%

The following table presents the percentage of certain items to revenue:

	Twelve Months Ended	
	12/31/2010 (restated)	12/31/2009 (restated)
Revenue	100.0%	100.0%
Cost of sales	78.6%	75.7%
Gross profit	21.4%	24.3%
Selling, general and administrative	30.9%	36.5%
Amortization of intangibles	0.7%	1.9%
Impairment loss	0.0%	4.0%
Operating loss	-10.3%	-18.1%
Total other income	0.2%	-4.7%
Loss from continuing operations	-10.0%	-22.8%
Loss from operation of discontinued business	0.0%	-2.7%
Loss before income taxes	-10.0%	-25.5%
Income tax benefit	0.0%	1.6%
Net Loss	-10.0%	-23.9%
Preferred Dividend	0.0%	-2.3%
Net Loss Available to Common	-10.0%	-26.2%

Revenue

Our revenue for the twelve-month period ended December 31, 2010 increased \$17.5 million or 26.6%, to \$83.3 million when compared to \$65.8 million earned for 2009. Contributing to this increase was revenue generated by our utility program management business and FRR contract. Both of these were new business initiatives we began in late 2009 and neither of them generated significant revenue during 2009. The higher revenue generated by the utility business and FRR contract was partially offset by lower revenue from our C&I and public sector markets

Gross Profit

Our gross profit increased \$1.8 million, or 11.4%, to \$17.8 million during 2010 from \$16.0 million in 2009. Our gross profit margin declined from 24.3% in 2009 to 21.4% in 2010. The decline in our gross margin was due primarily to a shift in the mix of our business.

Selling General & Administrative Expense

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Our selling, general and administrative expense increased \$1.7 million or 7.3%, to \$25.8 million during the twelve-month period ended December 31, 2010, when compared to \$24.0 million for the same period during 2009. All of the increase in our SG&A expense was related to our three new business initiatives: the utility program management business, the FRR contract and the Asset Development and Management business. We started the utility program management business and won the FRR contract late in 2009, so neither of these businesses had significant expenses during 2009. We began the Asset Development and Management business during 2010 and it had no expenses during 2009. We reduced our SG&A expense during 2010 through realignment of resources and headcount reductions in areas that support our public sector and C&I markets and in our corporate overhead.

Our SG&A expense as a percentage of revenue declined from 36.5% in 2009 to 30.9% during 2010 as our revenue grew at a faster rate than our SG&A in 2010.

Amortization of Intangibles

Amortization expense declined \$0.6 million to \$0.6 million in 2010 from \$1.2 million in 2009. Amortization expense declined as certain intangible assets associated with prior acquisitions became fully amortized.

Impairment Loss

During 2009 we determined that the Parke trade name was impaired due to our decision to operate the business under the Lime Energy name. As a result, we reduced the carrying value of this intangible asset to \$0, incurring a \$2.6 million impairment loss during the fourth quarter of 2009. This loss was partially offset by the reversal of a \$1 million deferred tax liability associated with this indefinite-lived asset, which was reported as an income tax benefit.

Other Income (Expense)

Other non-operating income (expense) declined \$3.2 million to income of \$172,000 during the twelve months ended December 31, 2010 from expense of \$3.1 million during the twelve months ended December 31, 2009. Interest expense decreased \$3.2 million during 2010 to \$33,000 from \$3.2 million during 2009. The components of interest expense for the years ended December 31, 2010 and 2009 are as follows (in thousands):

	Year ended December 31,		
	2010	2009	
Line of credit	\$	\$	51
Note payable			76
Mortgage	20		19
Subordinated convertible notes			329
Other	13		73
Total contractual interest	33		548
Amortization of deferred issuance costs and debt discount			1,724
Beneficial value of change in conversion price			938

Total Interest Expense	\$	33	\$	3,210
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Total contractual interest expense (the interest on outstanding loan balances) decreased \$515,000 or 94.0%, from \$548,000 in 2009 to \$33,000 in 2010. The decline in interest expense was the result of the repayment of all of our debt except for the mortgage on our building and various vehicle loans following the public offering of our common stock in September 2009.

Amortization of deferred issuance costs in 2009 included \$1.4 million of debt discount amortization and \$4,000 of deferred issuance cost amortization, both of which were associated with the subordinated convertible notes.

In August 2009 we issued warrants in connection with the bridge line of credit. These warrants were valued at \$309,000 using a trinomial option pricing model and the value was recorded as a debt discount, which we began to amortize over the scheduled term of the facility. We terminated the bridge line of credit in October 2009 following the completion of a follow-on offering of common stock, at which time we expensed the remaining unamortized debt discount.

In addition, during 2009 we incurred a \$938,000 non-cash charge resulting from the conversion of the subordinated convertible notes to common stock at a conversion price which was lower than their stated conversion price.

Our interest income increased \$68,000 to \$205,000 during 2010 from \$137,000 during 2009. Approximately \$168,000 of the 2010 interest income was amortization of the discount on our long-term receivables, an increase of \$55,000, or 48.7%, from the \$113,000 recognized on these receivables during 2009.

Discontinued Operations

The \$1.8 million loss from discontinued operations reported in 2009 represents the results from our Energy Technology business, which we sold in August 2009.

Dividend Expense.

The preferred dividend expense reported in 2009 was associated with our Series A-1 convertible preferred stock, which was converted into common stock on August 10, 2009.

Twelve-Month Period Ended December 31, 2009 (restated)

Compared With the Twelve-Month Period Ended December 31, 2008 (restated)

Consolidated Results

	Twelve Months Ended		Change	
	12/31/2009 (restated)	12/31/2008 (restated)		
Revenue	\$ 65,811	\$ 54,674	\$ 11,137	20.4%
Cost of sales	49,830	42,367	7,463	17.6%
Gross profit	15,981	12,307	3,674	29.9%
Selling, general and administrative	24,009	17,758	6,251	35.2%
Amortization of intangibles	1,221	1,568	(347)	-22.1%
Impairment loss	2,652		2,652	0.0%
Operating loss	(11,901)	(7,019)	(4,882)	69.6%
Total other (expense) income	(3,073)	(2,581)	(492)	19.1%
Loss from continuing operations	(14,974)	(9,600)	(5,374)	56.0%
Loss from operation of discontinued business	(1,786)	(2,480)	694	-28.0%
Loss before income taxes	(16,760)	(12,080)	(4,680)	38.7%
Income tax benefit	1,034		1,034	0.0%
Net Loss	\$ (15,726)	\$ (12,080)	\$ (3,646)	30.2%
Preferred Dividend	(1,499)	(288)	(1,211)	420.5%
Net Loss Available to Common	\$ (17,225)	\$ (12,368)	\$ (4,857)	39.3%

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The following table presents the percentage of certain items to revenue:

	Twelve Months Ended	
	12/31/2009 (restated)	12/31/2008 (restated)
Revenue	100.0%	100.0%
Cost of sales	75.7%	77.5%
Gross profit	24.3%	22.5%
Selling, general and administrative	36.5%	32.5%
Amortization of intangibles	1.9%	2.9%
Impairment loss	4.0%	0.0%
Operating loss	-18.1%	-12.8%
Total other income	-4.7%	-4.7%
Loss from continuing operations	-22.8%	-17.6%
Loss from operation of discontinued business	-2.7%	-4.5%
Loss before income taxes	-25.5%	-22.1%
Income tax benefit	1.6%	0.0%
Net Loss	-23.9%	-22.1%
Preferred Dividend	-2.3%	-0.5%
Net Loss Available to Common	-26.2%	-22.6%

Revenue

Our consolidated revenue for the twelve-month period ended December 31, 2009 increased \$11.1 million or 20.4%, to \$65.8 million from \$54.7 million recognized during the twelve-month period ended 2008. The increase was primarily due to the inclusion of a full twelve months of revenue from Applied Energy Management, Inc., which was acquired in June 2008. This increase was partially offset by a \$4.0 million decline in revenue derived from our C&I market, where customers deferred projects due to concerns regarding the economy.

Gross Profit

Our gross profit increased \$3.7 million or 29.9% to \$16.0 million during 2009 from \$12.3 million during 2008. Our gross profit margin was 24.3% during 2009 compared to 22.5% for 2008. The improvement in our gross margin was due to a change in our shift of business that included higher margin projects from our public sector.

Selling General & Administrative Expense

Our selling, general and administrative expenses increased \$6.3 million or 35.2% during 2009 to \$24.0 million from \$17.8 million for 2008. The majority of the increase in our SG&A was due to the

inclusion of twelve months of expense from AEM, which was acquired in June 2008. Our SG&A as a percent of revenue increased during 2009 to 36.5% from 32.5% in 2008 on a historical basis. The increase in SG&A expense was primarily the result of the investment in the utility program management and FRR initiatives during 2009. Neither of these initiatives generated material revenue during 2009. The 2009 SG&A expense also included a one-time reserve of \$300,000 for a legal settlement. Other changes in SG&A included a \$1.9 million decline in our share based compensation expense, which was largely offset by increases in wages, outside services, franchise taxes and rent expense. A significant portion of the increase in outside services was related to implementation of a new accounting system at AEM and a new corporate email system.

Amortization of Intangibles

Amortization expense declined \$347,000, or 22.1%, to \$1.2 million during 2009 from \$1.6 million in 2008. Amortization expense has declined as certain intangible assets associated with past acquisitions have become fully amortized.

Impairment Loss

During 2009 we determined that the Parke trade name was impaired due to our decision to operate the business under the Lime Energy name. As a result, we reduced the carrying value of this intangible asset to \$0, incurring a \$2.6 million impairment loss during the fourth quarter of 2009. This loss was partially offset by the reversal of a \$1 million deferred tax liability associated with this indefinite-lived asset.

Other Income (Expense)

Other non-operating expense increased \$492,000 to \$3,073,000 in 2009 from \$2,581,000 in 2008. Interest expense increased \$542,000 during 2009 to \$3,210,000 from \$2,668,000 in 2008. The components of interest expense for the years ended December 31, 2009 and 2008 are as follows (in thousands):

	Year ended December 31,	
	2009	2008
Line of credit	\$ 51	\$ 953
Note payable	76	67
Mortgage	19	27
Subordinated convertible notes	329	500
Other	73	117
Total contractual interest	548	1,664
Amortization of deferred issuance costs and debt discount	1,724	1,004
Beneficial value of change in conversion price	938	
Total Interest Expense	\$ 3,210	\$ 2,668

Total contractual interest expense (the interest on outstanding loan balances) decreased \$1,116,000 or 67.1% from \$1,664,000 in 2008 to \$548,000 in 2009. The decline in interest expense was primarily due to reduced use of our line of credit and the conversion of the subordinated notes. In November 2008, \$14.5 million outstanding on the line of credit was converted to common stock and the line of credit was terminated in March 2009 when we acquired Advanced Biotherapy, Inc. The subordinated notes were converted to common stock during the third quarter of 2009.

Amortization of deferred issuance costs and debt discount increased \$720,000 to \$1,724,000 in 2009 from \$1,004,000 in 2008. The 2009 expense included a \$1,411,000 debt discount of which \$756,000 and \$2,000 of deferred issuance costs were expensed when the subordinated notes converted to common stock during the third quarter of 2009.

In August 2009 we issued warrants in connection with the new bridge line of credit. These warrants were valued at \$309,000 using a trinomial tree option pricing model and the value was recorded as a debt discount, which we began to amortize over the schedule term of the facility. We terminated the bridge line of credit in October 2009, following the completion of a follow-on offering of common stock, at which time we expensed the remaining unamortized debt discount.

We used a portion of the proceeds from the 2009 follow-on offering to repay most of our remaining outstanding debt. As of December 31, 2009 our outstanding debt totaled \$731,000, which was comprised a mortgage and various vehicle loans, and there was no remaining unamortized debt discount or deferred issuance costs.

Our interest income increased \$50,000 to \$137,000 during 2009 from \$87,000 for 2008. Approximately \$113,000 of the 2009 interest income was amortization of the discount on our long-term receivables, compared to \$39,000 of amortization recognized on these receivables during 2008.

Discontinued Operations

Our loss from discontinued operations declined \$694,000 or 28% to \$1,786,000 in 2009 from \$2,480,000 in 2008. Discontinued Operations represents the results from our Energy Technology business, which we sold in August 2009.

Dividend Expense.

Dividend expense increased \$1,211,000 during 2009 to \$1,499,000 from \$288,000 during 2008. The dividend expense was related to our Series A-1 preferred stock which was created when \$14.5 million of our line of credit was converted into shares of the Series A-1 on November 14, 2008. The Series A-1 was converted into common stock on August 10, 2009, at which time we stopped accruing dividends. There were no shares of preferred stock outstanding as of December 31, 2009.

Liquidity and Capital Resources

Overview

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During the twelve-month period ended December 31, 2012, we incurred a net loss of \$31.8 million and used \$13.6 million of cash for operating activities. Primarily as a result of our continuing losses and lack of liquidity, our independent registered public accounting firm modified their opinion on our December 31, 2012 Consolidated Financial Statement to contain a paragraph wherein they expressed a substantial doubt about our ability to continue as a going concern. We have taken steps to reduce our losses and improve our liquidity, the most significant of which was to sell our ESCO business. We provide additional insight into our strategy for strengthening our financial position below.

As of December 31, 2012, we had cash and cash equivalents of \$2.9 million, including \$500 thousand of restricted cash, compared to cash of \$9.0 million, including restricted cash of \$725 thousand as of December 31, 2011. Our contractual obligations as of December 31, 2012 totaled \$16.4 million, and include \$12.1 million of debt (including expected interest payments of \$2.5 million) and \$4.2 million in

future lease obligations. Our contractual commitments for 2013 total approximately \$1.8 million, which we believe we will be able to satisfy through operating cash flows and our cash reserve.

Our principal cash requirements are for operating expenses, including employee costs, the cost of outside services including those providing accounting, legal and contracting services, and the funding of accounts receivable, and capital expenditures. We have financed our operations since inception primarily through the sale of our common and preferred stock, as well as through various forms of secured debt.

The following table summarizes, for the periods indicated, selected items in our consolidated statement of cash flows (in thousands):

Year ended December 31	2012	2011
Net cash used in operating activities	\$ (13,577)	\$ (4,246)
Net cash used in investing activities	(761)	(3,404)
Net cash provided by financing activities	8,440	2,924
Net Decrease in Cash and Cash Equivalents	(5,898)	(4,726)
Cash and Cash Equivalents, at beginning of period	8,290	13,016
Cash and Cash Equivalents, at end of period	\$ 2,392	\$ 8,290

2012 Compared to 2011

Net cash declined \$5.9 million during the twelve-month period ended December 31, 2012, compared to declining \$4.7 million during twelve-month period ended December 31, 2011.

Operating Activities

Operating activities consumed \$13.6 million of cash during the twelve-month period ended December 31, 2012, compared to consuming \$4.3 million during twelve-month period ended December 31, 2011.

Whether cash is consumed or generated by operating activities is a function of the profitability of our operations and changes in working capital. To get a better understanding of cash sources and uses, management splits the cash used or provided by operating activities into two pieces: the cash consumed (or generated) by operating activities before changes in assets and liabilities; and the cash consumed (or generated) from changes in assets and liabilities. By splitting the cash used or provided by operating activities this way our management believes it gets a better understanding of how much of our operating cash flow is the result of the Company's current period cash earnings or loss and how much of our operating cash flow is due to changes in working capital. These two measures are calculated as follows (in thousands):

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	Year ended December 31, 2012	Year ended December 31, 2011 (Restated)
Net Loss	\$ (31,812)	\$ (18,933)
Provision for bad debts	866	361
Share-based compensation	1,784	2,191
Depreciation and amortization	1,821	1,325
Amortization of original issue discount	50	
Amortization of deferred financing costs	57	32
Issuance of stock and warrants in exchange for services received	20	6
PIK notes issued for interest	137	
Asset impairment	5,282	
Loss on disposition of fixed assets	(2)	107
Goodwill impairment	1,435	5,846
Cash consumed by operating activities before changes in assets and liabilities	\$ (20,362)	\$ (9,065)
Changes in assets and liabilities, net of business acquisitions and dispositions:		
Accounts receivable	\$ 9,272	\$ (12,511)
Inventories	(17)	
Costs in excess uncompleted contracts	(2,357)	5,911
Prepaid expenses and other current assets	337	(201)
Assets of discontinued operations	7,361	2,401
Accounts payable	(6,727)	5,317
Accrued expenses	771	1,259
Billings in excess uncompleted contracts	(3,516)	2,451
Other current liabilities	5,110	(545)
Liabilities of discontinued operations	(3,449)	737
Cash generated (consumed) from changes in assets and liabilities	\$ 6,785	\$ 4,819

The reconciliation to net cash used in operating activities as reported on our Consolidated Statement of Cash Flows is as follows (in thousands):

	Year ended December 31, 2012	Year ended December 31, 2011 (Restated)
Cash consumed by operating activities before changes in assets and liabilities	\$ (20,362)	\$ (9,065)
Cash generated from changes in assets and liabilities	6,785	4,819
Net cash used in operating activities	\$ (13,577)	\$ (4,246)

The cash consumed by operating activities before changes in assets and liabilities increased \$11.3 million, or 124.6%, to \$20.4 million during the twelve months ended December 31, 2012 from \$9.1 million for the same period during 2011. The increase in cash consumed was the result of the increase in cash SG&A expense for the period due to the combination of the restatement related expenses and the start-up of new utility programs.

We believe that expected growth in our revenue resulting from implementation of recently won contracts, in combination with an improvement in our gross margin and continued reductions in our SG&A as a percentage of revenue, will result in a significant reduction in cash use during 2013. If we are successful in executing the strategy outlined below, we believe that we could begin to generate cash from operating activities before changes in assets and liabilities during the second half of 2013.

Cash generated from changes in assets and liabilities increased \$2.0 million, or 41.4%, to \$6.8 million during the twelve months ended December 31, 2012, from \$4.8 million for the twelve months ended December 31, 2011. The change in business mix resulting from the slowdown in activity at our public sector business, which generally has higher working capital requirements, and the continued growth of our utility business, which generally has lower working capital requirements, led to the increase in cash generated from changes in assets and liabilities during 2012. With the sale of the public sector business in February 2013, we expect to see additional improvement in the amount of working capital required to support the business in the future.

Investing Activities

Cash used in investing activities declined \$2.6 million, or 77.6%, to \$761 thousand during the year ended December 31, 2012, compared to using \$3.4 million during the same period during 2011. During 2012, we used \$986 thousand for the purchase of property and equipment, compared to using \$5.3 million during 2011. Approximately \$3.8 million of the 2011 expenditures were used to construct the Zemel Road landfill-gas to electricity facility. The balance of the 2012 and 2011 capital expenditures were for computers, software and office equipment, primarily for the expansion of our utility business. These expenditures were partially offset during 2011 by \$765 thousand received from the sale of our former headquarters in Elk Grove Village, IL. Reductions in restricted cash also helped to offset the purchase of property and equipment during both 2012 and 2011. During 2012 restricted cash used to support bonds declined by \$225 thousand while in 2011 there was a \$1.2 million reduction in restricted cash.

Financing Activities

Financing activities generated cash of \$8.4 million during 2012, compared to generating \$2.9 million during 2011. In May 2012, we sold 1 million shares of our common stock, raising \$2.5 million and in October we raised \$6.1 million through the issuance of subordinated convertible notes. During the year we also raised \$171 thousand from the sale of stock to employees under our Employee Stock Purchase Plan. These 2012 sources of cash were partial offset by scheduled principal payments of \$234 thousand and \$37 thousand of costs incurred in the issuance of the subordinated notes and \$60 thousand incurred in the issuance of the common stock. During 2011, we received \$3.6 million from a term loan used to finance a portion of the cost of the Zemel Road landfill-gas to electricity facility, and \$65 thousand from the issuance of shares of our stock under employee benefit plans. This was partially offset by \$481 thousand used to repay the mortgage on our former headquarters and other scheduled debt payments, and \$260 thousand of debt issuance costs.

2011 Compared to 2010

Net cash declined \$4.7 million during the twelve-month period ended December 31, 2011, compared to declining \$9.9 million during twelve-month period ended December 31, 2010.

Operating Activities

Operating activities consumed \$4.2 million during both the twelve-month period ended December 31, 2011, and the twelve-month period ended December 31, 2010. Changes in current assets and liabilities generated cash of \$4.8 million during 2011, which was offset by the operating loss and non-cash charges totaling \$9.1 million. During 2010 changes in current assets and liabilities generated cash of \$1.7 million, which was offset by an operating loss and non-cash charges totaling \$5.9 million.

Investing Activities

Cash used in investing activities declined \$2.2 million, or 39.3%, to \$3.4 million during the year ended December 31, 2011, compared to using \$5.6 million during the same period during 2010. During 2011, we used \$5.4 million to purchase equipment, compared to using \$4.2 million in 2010 to purchase equipment and the Zemel Road gas rights. Approximately \$3.8 million of the 2011 expenditures were used to construct the Zemel Road landfill-gas to electricity facility, compared to \$3.5 million that was spent on equipment and the gas rights during 2010. The balance of the 2011 and 2010 capital expenditures were for computers, software and office equipment, primarily for the expansion of our utility program management business. The Zemel Road facility was completed and began generating electricity in October 2011, therefore we anticipate a significant reduction in our purchases of property and equipment during 2012. These expenditures were partially offset during 2011 by \$765 thousand received from the sale of real estate and a \$1.2 million reduction in restricted cash as collateral supporting surety bonds was released. During 2010, our restricted cash used to support surety bonds increased by \$1.4 million and we realized \$16 thousand from the sale of assets.

Financing Activities

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Financing activities generated cash of \$2.9 million during 2011 compared to consuming cash of \$56 thousand during 2010. During 2011, we received \$3.6 million from a term loan used to finance a portion of the cost of the Zemel Road landfill-gas to electricity facility, and \$65 thousand from the issuance of shares of our stock under employee benefit plans. This was partially offset by \$481 thousand used to repay the mortgage on a building we sold and other scheduled debt payments, and \$260 thousand of debt issuance costs. During 2010, we used \$198 thousand for schedule principal payments on our debt and received \$142 thousand from the issuance of shares of our stock under employee benefit plans.

2010 Compared to 2009

Net cash declined \$9.9 million during 2010 compared to increasing \$19.1 million during 2009.

Operating Activities

Operating activities consumed \$4.2 million and \$12.7 million during 2010 and 2009, respectively. The net loss, less non-cash charges consumed cash of \$5.9 million during 2010, compared to consuming \$7.4 million during 2009. Changes in current assets and current liabilities generated cash of \$1.7 million during 2010, compared to generating \$5.3 million in 2009.

Investing Activities

Cash consumed by investing activities increased \$3.6 million to \$5.6 million during 2010, from \$1.9 million during 2009. Approximately \$3.5 million of this increase was related to the acquisition of the gas rights to the Zemel Road landfill and costs to construct the generating facility on that site. The balance of the fixed asset purchases during 2010 were for computers, software and office equipment, primarily in support of our new business initiatives.

Financing Activities

Financing activities consumed \$56 thousand during 2010 as compared to generating \$33.8 million during 2009. During 2010 we made \$198 thousand in scheduled payments on our outstanding debt and received \$142 thousand from the sale of shares of our common stock to employees participating in our Employee Stock Purchase Plan.

During 2009 we completed three offerings of our common stock, raising gross proceeds of \$42.3 million. The proceeds from these offerings were partially offset by \$3.1 million in offering related costs. We used \$4.0 million during 2009 to repay our line of credit and \$1.6 million to repay other notes. We also received \$91 thousand from the issuance of shares under our Employee Stock Purchase Plan, \$45 thousand on the exercise of certain options and warrants and \$27 thousand through the financing of vehicle purchases.

2009 Compared to 2008

Net cash increased \$19.1 million during 2009 compared to a decline of \$1.0 million during 2008.

Operating Activities

Operating activities consumed \$12.7 million during 2009 and \$13.4 million during 2008. The net loss, less non-cash charges consumed cash of \$7.4 million during 2009, compared to consuming \$4.1 million during 2008. Changes in current assets and current liabilities generated cash of \$5.3 million in 2009, compared to consuming \$9.3 million during 2008.

Investing Activities

The cash consumed by investing activities declined \$2.3 million to \$1.9 million during 2009 from \$4.2 million during 2008. Cash used for acquisitions declined \$2.8 million to \$1 million during 2009, compared to \$3.8 million used during 2008. During 2009 we made an earn-out payment to the former stockholders of AEM and we acquired the FRR contract. Capital expenditures declined \$25,000 during 2009 to \$378,000 from \$403,000 during 2008. Our capital expenditures during both years were for

construction vehicles, primarily vans, and office equipment. During 2009 we received \$11,000 in proceeds from the sale of certain fixed assets compared to receiving \$3,000 during 2008.

Financing Activities

We generated \$33.8 million from financing activities during 2009, compared to generating \$16.6 million during 2008. We completed three offerings of our common stock, raising gross proceeds of \$42.3 million. The proceeds from these offerings were partially offset by \$3.1 million in offering related costs. We used \$4.0 million during 2009 to repay our line of credit and \$1.6 million to repay other notes. We also received \$91,000 from the issuance of shares under our Employee Stock Purchase Plan, \$45,000 on the exercise of certain options and warrants and \$27,000 through the financing of vehicle purchases.

Sources of Liquidity

Our primary sources of liquidity are our available, unrestricted cash reserves.

Our ability to continue to expand the sales of our products and services will require the continued commitment of significant funds. The actual timing and amount of our future funding requirements will depend on many factors, including the amount, timing and profitability of future revenues, working capital requirements, the level and amount of product marketing and sales efforts, among other things.

We have raised a significant amount of capital since our formation through the issuance of shares of our common and preferred stock and notes, which has allowed us to continue to execute our business plan. Most of these funds have been consumed by operating activities, either to fund our losses or for working capital requirements.

We incurred a \$31.8 million loss during 2012 and consumed \$13.6 million of cash in operating activities during the 2012, as we dealt with the impact on the business of the announcement regarding our discovery of improper revenue recognition, the inability of our Asset Development business to secure the financing required to fund its projects and the start-up of five new utility programs. Late last year our management, in consultation with our Board of Directors, decided that we needed to shed businesses that we could not finance, narrow our focus to our most promising business and reduce overhead costs. Consistent with this strategy, we shut down the asset development business, sold the ESCO business and made significant reductions in remaining headcount.

Approximately 88% of our 2013 revenue is expected to be generated by our utility business, which has been our fastest growing business for the past three years. It is also a business in which we believe we are the market leader, in a market we believe has good prospects for future growth. The other remaining businesses will either be integrated into the utility business, if integration makes strategic sense, sold or operated until we have met all our obligations under our contracts and then shut down. We most likely will not resolve the future of these other businesses until sometime in 2014. Fortunately, they are each fairly autonomous and not expected to be a drain on cash.

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We have experienced a marked improvement in cash flow as we have begun to implement this strategy. We expect continued improvements as new utility programs start to achieve profitability and restatement related costs decline. We believe that as a result of these changes, there is a chance we will achieve profitability on a consolidated basis before the end of the year, though it is likely we will report a loss for full year 2013. We continue to closely monitor our cash position and are prepared to attempt to raise additional capital if it is necessary to meet day-to-day operating needs. If we do determine it necessary to raise additional capital there is no assurance we will be able to do so, or it may only be available on terms that are not favorable to the Company or our existing shareholders. We believe that we would be more likely to receive less onerous terms from a financing source the further we are along in

executing our strategy of focusing on our utilities business when attempting to raise capital. Therefore, we will continue to focus on the execution of that strategy, while closely monitoring cash and deferring any capital raise as long as possible.

The information set forth above represents certain expectations of our business over time based on our business model. We caution you that these expectations may not materialize and are not indicative of the actual results we will achieve. See Risk Factors and Cautionary Statement On Forward-Looking Information.

Off-Balance Sheet Arrangements

None.

Recent Accounting Pronouncements

We do not believe any recently issued, but not yet effective, accounting standards will have a material effect on our consolidated financial position, results of operations, or cash flows.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a)(3) Exhibits

Exhibit Number	Description of Exhibit
31.1 *	Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002
31.2*	Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002
32.1 *	Certification of the Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002
32.2*	Certification of the Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002

* Filed herewith

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LIME ENERGY CO.

By: /s/ John O Rourke
John O Rourke
Chief Executive Officer
October 11, 2013