

LIME ENERGY CO.
Form 10-Q
July 31, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2012

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

For the transition period from _____ to _____

Commission file number 001-16265

LIME ENERGY CO.

(Exact name of registrant as specified in its charter)

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Delaware

36-4197337

(State or other jurisdiction of incorporation or organization)

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

16810 Kenton Drive, Suite 240, Huntersville, NC 28078
(Address of principal executive offices, including zip code)

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

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

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

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

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller reporting company

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

25,152,693 shares of the registrant's common stock, \$.0001 par value per share, were outstanding as of July 26, 2013.

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LIME ENERGY CO.

FORM 10-Q

For The Quarter Ended September 30, 2012

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EXPLANATORY NOTE

Lime Energy Co. (the Company) previously disclosed by means of Current Reports on Form 8-K filed on July 17, 2012 and December 28, 2012, that its consolidated financial statements for the years ended December 31, 2008, 2009, 2010 and 2011 as well as quarterly financial statement for the three-month period ended March 31, 2012, could no longer be relied on due to errors in recognition of revenue. Due to the need to restate its results for these periods, the Company did not file its Quarterly Reports for the quarters ended June 30, 2012 and September 30, 2012. The Company has elected to include in this Quarterly Report on Form 10-Q, the restated, unaudited financial statements for the quarter ended March 31, 2012, including a reconciliation to the previously filed financial statements for the quarter, along with the unaudited financial statements for the three-month and six-month period ended June 30, 2012 and the three-month and nine-month period ended September 30, 2012, and the comparative prior year periods as restated, including a reconciliation to the previously filed financial statements.

Details on the restatement and its impact on the Company's controls and procedures are included in Part I, Item 1 Financial Statements, under Note 2 Restatement of Condensed Consolidated Financial Statements and Part I Item 4 Controls and Procedures, respectively.

Background of the Restatement

Following a partial internal review of certain accounting records, on Friday, July 13, 2012, Jeffrey Mistarz, the Company's Chief Financial Officer concluded that there was preliminary evidence suggesting that there had been misreporting of revenue from the Company's utilities division. At the request of Mr. Mistarz and John O'Rourke, the Company's Chief Executive Officer, the Company's regular outside corporate counsel immediately began a preliminary investigation of the facts and circumstances related to the misreporting of revenue.

On Saturday, July 14, 2012, the directors of the Company were informed of the reasons for the internal investigation. A meeting of the Audit Committee was held on Sunday, July 15, 2012. At that meeting, the Audit Committee determined that the Company's consolidated financial statements on Form 10-K for the periods ended December 31, 2010 and December 31, 2011 and quarterly report on Form 10-Q for the period ended March 31, 2012 could no longer be relied upon.

On July 22, 2012, the Audit Committee met and established a subcommittee to conduct an independent investigation of the misreporting of revenue. The subcommittee retained its own independent counsel and forensic accountants.

As part of the independent investigation, limited reviews were made of selected projects from the Company's divisions other than the utilities division. That review led to the discovery of misreporting of revenues from the public sector division, and the Company discovered evidence suggesting that there had been misreporting of revenues in the years ended December 31, 2008 and 2009. On December 21, 2012, the Audit Committee determined that the Company's financial statements for those years could no longer be relied on.

The independent investigation determined that the utilities and public sector divisions did misreport revenue. The misreporting of revenue comprised the recognition of approximately \$17.4 million of cumulative revenue through the first quarter of 2012 in periods earlier than the period in which such revenue should have been recognized and the recognition of approximately \$14.2 million of revenue for which there was

no underlying contract or for which the revenue recognized exceeded the amount of the

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contract. The increase in the cumulative retained deficit through December 31, 2010 resulting from these overstatements was \$2.6 million. The requirements for recognizing all but \$500 thousand of the revenue recognized earlier than appropriate was met as of the end of 2012. As a result of that determination, the Company has restated its financial statements for each of the years 2008 through 2011 and for the first quarter of 2012. The effects of the restatements of the quarters ended March 31, 2011, June 30, 2011, September 30, 2011 and March 31, 2012 are set forth in this Report and the restatement of the years 2008 through 2011 are set forth in our 10-K for the year ended December 31, 2012 filed with the SEC on July 31, 2013. The Company has not amended and does not intend to amend any of its previously filed quarterly reports for any period prior to December 31, 2011. In addition, as a result of the independent investigation, the Company has discharged seven employees identified as having been involved in the misreporting of revenue.

The independent investigation also concluded that the Company had deficiencies in its internal control over financial accounting. Consequently, the Company has revised its previous evaluation of the effectiveness of its disclosure controls and procedures as of December 31, 2008, 2009, 2010 and 2011, and as of March 31, June 30 and September 30, 2012, and concluded that its disclosure controls and procedures and internal control over financial reporting were ineffective as of those dates because of material weaknesses in the Company's internal control over financial reporting. The Company has instituted a remediation plan for its internal control over financial reporting. Notwithstanding the control deficiencies identified, the Company has performed additional analyses and other procedures to enable its management to conclude that the Company's financial statements included in this Form 10-Q fairly present, in all material respects, its financial condition and results of operations for the periods presented.

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PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

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

(in thousands)

	September 30, 2012 (Unaudited)	June 30, 2012 (Unaudited)	March 31, 2012 (Restated) (Unaudited)	December 31, 2011 (1) (Restated)
Assets				
Current Assets				
Cash and cash equivalents	\$ 1,727	\$ 3,620	\$ 3,678	\$ 8,290
Restricted cash	500	500	724	725
Accounts receivable, net	18,662	23,882	24,584	31,201
Inventories	572	590	590	630
Costs and estimated earnings in excess of billings on uncompleted contracts	5,291	3,660	5,092	7,471
Prepaid expenses and other	1,310	1,231	1,154	1,235
Total Current Assets	28,062	33,483	35,822	49,552
Net Property and Equipment	6,681	6,921	6,705	6,736
Long-Term Receivables	41	55	96	154
Deferred Financing Costs, Net	188	200	211	228
Intangibles, Net	4,263	4,437	4,623	4,808
Goodwill	12,781	12,781	12,781	12,781
	\$ 52,016	\$ 57,877	\$ 60,238	\$ 74,259

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

(in thousands, except share data)

	September 30, 2012 (Unaudited)	June 30, 2012 (Unaudited)	March 31, 2012 (Restated) (Unaudited)	December 31, 2011 (1) (Restated)
Liabilities and Stockholders Equity				
Current Liabilities				
Current maturities of long-term debt	\$ 3,463	\$ 3,518	\$ 219	\$ 234
Accounts payable	15,375	13,671	11,639	16,350
Accrued expenses	4,695	4,537	4,825	4,689
Billings in excess of costs and estimated earnings on uncompleted contracts	4,356	5,702	8,520	14,213
Customer deposits	41	41	76	231
Total Current Liabilities	27,930	27,469	25,279	35,717
Long-Term Debt, less current maturities	6	8	3,370	3,418
Total Liabilities	27,936	27,477	28,649	39,135
Stockholders Equity				
Common stock, \$.0001 par value; 50,000,000 shares authorized 23,975,671, 24,998,142, 25,045,210 and 23,842,616 issued and outstanding as of March 31, 2012, June 30, 2012, September 30, 2012 and December 31, 2011, respectively	2	2	2	2
Additional paid-in capital	189,805	189,527	186,055	185,402
Accumulated deficit	(165,727)	(159,129)	(154,468)	(150,280)
Total Stockholders Equity	24,080	30,400	31,589	35,124
	\$ 52,016	\$ 57,877	\$ 60,238	\$ 74,259

See accompanying notes to condensed consolidated financial statements

(1) Derived from audited financial statements for the year ended December 31, 2011, as restated in the Company's annual report on Form 10-K for the year ended December 31, 2012

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Three Months Ended March 31,	2012 (Restated) (Unaudited)	2011 (Restated) (Unaudited)
Revenue	\$ 25,939	\$ 24,821
Cost of sales	22,117	20,186
Gross Profit	3,822	4,635
Selling, general and administrative	7,772	7,159
Amortization of intangibles	186	153
Operating loss	(4,136)	(2,677)
Other Income (Expense)		
Interest income	25	40
Interest expense	(77)	(10)
Total other (expense) income	(52)	30
Net loss	\$ (4,188)	\$ (2,647)
Basic and Diluted Loss Per Common Share	\$ (0.17)	\$ (0.11)
Weighted Average Common Shares Outstanding	23,971	23,799

See accompanying notes to condensed consolidated financial statements

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Lime Energy Co.

Unaudited Condensed Consolidated Statements of Operations

(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012 (Unaudited)	2011 (Restated) (Unaudited)	2012 (Unaudited)	2011 (Restated) (Unaudited)
Revenue	\$ 21,567	\$ 22,110	\$ 47,507	\$ 46,931
Cost of sales	16,948	19,160	39,066	39,345
Gross Profit	4,619	2,950	8,441	7,586
Selling, general and administrative	9,027	6,745	16,799	13,904
Amortization of intangibles	186	153	372	307
Restructuring charge		1,109		1,109
Operating loss	(4,594)	(5,057)	(8,730)	(7,734)
Other Income (Expense)				
Interest income	23	34	48	75
Interest expense	(91)	(19)	(168)	(30)
Total other (expense) income	(68)	15	(120)	45
Net loss	\$ (4,662)	\$ (5,042)	\$ (8,850)	\$ (7,689)
Basic and Diluted Loss Per Common Share	\$ (0.19)	\$ (0.21)	\$ (0.37)	\$ (0.32)
Weighted Average Common Shares Outstanding	24,470	23,812	24,222	23,806

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Lime Energy Co.

Unaudited Condensed Consolidated Statements of Operations

(in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012 (Unaudited)	2011 (Restated) (Unaudited)	2012 (Unaudited)	2011 (Restated) (Unaudited)
Revenue	\$ 18,166	\$ 26,119	\$ 65,673	\$ 73,049
Cost of sales	14,720	21,193	53,784	60,536
Gross Profit	3,446	4,926	11,889	12,513
Selling, general and administrative	9,815	6,370	26,614	20,274
Amortization of intangibles	173	153	545	460
Restructuring charge		172		1,281
Operating loss	(6,542)	(1,769)	(15,270)	(9,502)
Other Income (Expense)				
Interest income	23	34	70	109
Interest expense	(79)	(19)	(247)	(49)
Total other (expense) income	(56)	15	(177)	60
Net loss	\$ (6,598)	\$ (1,754)	\$ (15,447)	\$ (9,442)
Basic and Diluted Loss Per Common Share	\$ (0.26)	\$ (0.07)	\$ (0.63)	\$ (0.40)
Weighted Average Common Shares Outstanding	25,042	23,841	24,498	23,817

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Lime Energy Co.

Unaudited Condensed Consolidated Statement of Stockholders' Equity

(in thousands)

	Common Shares		Common Stock		Additional Paid-in Capital		Accumulated Deficit		Total Stockholders Equity
Balance, December 31, 2011, (restated)	23,843	\$	2	\$	185,402	\$	(150,279)	\$	35,125
Share based compensation					553				553
Shares issued for services received	6				20				20
Shares issued for benefit plans	127				80				80
Net loss							(4,188)		(4,188)
Balance, March 31, 2012, (restated)	23,976	\$	2	\$	186,055	\$	(154,467)	\$	31,590
Share based compensation					922				922
Issuance of common stock	1,000				2,550				2,550
Shares issued for benefit plans	22								
Net loss							(4,662)		(4,662)
Balance, June 30, 2012	24,998	\$	2	\$	189,527	\$	(159,129)	\$	30,400
Share based compensation					200				200
Costs related to stock issuances					(13)				(13)
Shares issued for benefit plans	47				91				91
Net loss							(6,598)		(6,598)
Balance, September 30, 2012	25,045	\$	2	\$	189,805	\$	(165,727)	\$	24,080

See accompanying notes to condensed consolidated financial statements.

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Lime Energy Co.
Unaudited Condensed Consolidated Statements of Cash Flows

(in thousands)

	Three Months Ended March 31, 2012 (Restated)		Six Months Ended June 30, 2011 (Restated)		Nine Months Ended September 30, 2011 (Restated)	
Cash Flows From Operating Activities						
Net Loss	\$ (4,188)	\$ (2,647)	\$ (8,850)	\$ (7,689)	\$ (15,447)	\$ (9,442)
Adjustments to reconcile net loss to net cash used in operating activities:						
Provision for bad debt	40	76	528	95	1,143	156
Share-based compensation	553	348	1,475	1,166	1,675	1,615
Depreciation and amortization	450	288	920	597	1,388	926
Amortization of deferred financing costs	17	3	28	10	40	18
Issuance of stock in exchange for services received	20		20		20	
(Gain) loss on disposition of property and equipment		(2)		(3)	(2)	105
Changes in assets and liabilities:						
Accounts receivable	6,635	(2,240)	6,890	1,309	11,509	(3,229)
Inventories	40	121	40	(25)	58	273
Costs and estimated earnings in excess of billings on uncompleted contracts	2,379	(1,427)	3,811	215	2,180	318
Prepaid expenses and other	60	(230)	(17)	(220)	(96)	(144)
Accounts payable	(4,712)	794	(2,679)	1,366	(975)	1,205
Accrued expenses	159	(400)	(130)	539	29	501
Billings in excess of costs and estimated earnings on uncompleted contracts	(5,694)	1,467	(8,512)	(1,489)	(9,858)	3,083
Customer deposits	(155)	(113)	(190)	(249)	(190)	(253)
Net cash used in operating activities	(4,396)	(3,962)	(6,666)	(4,378)	(8,526)	(4,868)
Cash Flows From Investing Activities						
Proceeds from sale of property and equipment		2		3		6
Purchases of property and equipment	(234)	(1,109)	(733)	(3,210)	(787)	(5,729)
Decrease (increase) in restricted cash	1	(1)	225	1,189	225	1,188

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Net cash used in investing activities	(233)	(1,108)	(508)	(2,018)	(562)	(4,535)
Cash Flows From Financing Activities						
Payments of long-term debt	(63)	(38)	(126)	(65)	(183)	(93)
Issuance of common stock			2,550		2,550	
Costs related to stock issuances					(13)	
Proceeds from issuance of shares for benefit plans	80		80		171	64
Cash paid for deferred financing costs		(31)		(31)		(31)
Net cash provided by (used in) financing activities	17	(69)	2,504	(96)	2,525	(60)
Net Decrease in Cash and Cash Equivalents						
	(4,612)	(5,139)	(4,670)	(6,492)	(6,563)	(9,463)
Cash and Cash Equivalents, at beginning of period						
	8,290	13,016	8,290	13,016	8,290	13,016
Cash and Cash Equivalents, at end of period						
	\$ 3,678	\$ 7,877	\$ 3,620	\$ 6,524	\$ 1,727	\$ 3,553

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	Three Months Ended March 31,		Six Months Ended June 30,		Nine Months Ended September 30,							
	2012	2011	2012	2011	2012	2011						
Supplemental Cash Flow Disclosure Information (in thousands):												
Cash paid during the period for interest	\$	55	\$	7	\$	149	\$	13	\$	202	\$	19

See accompanying notes to condensed consolidated financial statements.

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Notes to Unaudited Condensed Consolidated Financial Statements

Note 1 Basis of Presentation

The accompanying unaudited condensed consolidated financial statements (the "Financial Statements") of Lime Energy Co. ("Lime Energy" and, together with its subsidiaries, the "Company", "we", "us" or "our") have been prepared on the going concern basis which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has experienced operating losses and negative cash flow from operations since inception and currently has an accumulated deficit. It is also not currently in compliance with a financial covenant on a \$3 million term loan. These factors raise substantial doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is ultimately dependent on its ability to achieve profitability before it exhausts its current available capital, shed non-core assets and/or obtain additional funding. Management has decided to focus its resources on its rapidly growing utility business and to reduce overhead costs to the extent possible. Consistent with this strategy, on February 28, 2013, it sold its public sector business which represented slightly more than half of its 2012 revenue. Management has also indicated that it continues to closely monitor and forecast its cash requirements and is prepared to attempt to raise additional capital if it foresees a need to do so to fund day-to-day operations. The Company has historically funded its operations through the issuance of additional equity and secured debt. However, there is no assurance that the Company will continue to be successful in obtaining additional funding in the future or improving its operating results. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the possible inability of the Company to continue as a going concern.

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

The results of operations for the interim periods reported in this Form 10-Q are not necessarily indicative of the results to be expected for the full year.

The December 31, 2011 balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP.

For further information, refer to the audited financial statements and the related footnotes included in the Lime Energy Co. Annual Report on Form 10-K for the year ended December 31, 2011 included in its December 31, 2012 Annual Report filed with the SEC on July 31, 2013.

Note 2 - Restatement of the Condensed Consolidated Financial Statements

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The Company has restated its previously issued financial statements for the three-month periods ended March 31, 2012 and 2011, three and six-month periods ended June 30, 2011, and three and nine-month periods ended September 30, 2011 to correct errors in revenue and operating income associated with

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Lime Energy Co.

Notes to Unaudited Condensed Consolidated Financial Statements

revenue accounted for under the percentage-of-completion method. As a result of an internal review, the Company's management discovered that certain individuals circumvented its internal controls by obtaining or modifying documents in a fraudulent manner in order to recognize revenue earlier than appropriate and in some instances to support revenue that was not associated with valid customer contracts. Approximately \$14.2 million of revenue was recognized where no valid customer contract existed and \$17.4 million of cumulative revenue from January 1, 2008 through March 31, 2012 was recognized earlier than appropriate under generally accepted accounting principles. The increase in the cumulative retained deficit through December 31, 2010 was \$2.6 million, which is reflected in the opening retained deficit as of December 31, 2011 in the accompanying financial statements. All of the revenue except for approximately \$500 thousand that was recognized earlier than appropriate was recognized properly before December 31, 2012.

The following tables summarize the adjustments made to our previously reported unaudited results for the three-month period ended March 31, 2011. The Company's balance sheet as of December 31, 2011 was restated in the Company's Form 10-K and has not changed as a result of the issuance of this Form 10-Q:

Three Months Ended March 31, 2011	Statement of Operations		
	Previously Reported	Adjustments	Restated
Revenue	\$ 18,980	\$ 5,841	\$ 24,821
Cost of sales	15,366	4,820	20,186
Gross Profit	3,614	1,021	4,635
Selling, general and administrative	7,173	(14)	7,159
Amortization of intangibles	153		153
Operating loss	(3,712)	1,035	(2,677)
Other Income (Expense)			
Interest income	40		40
Interest expense	(10)		(10)
Total other (expense) income	30		30
Net loss	(3,682)	1,035	(2,647)
Basic and Diluted Loss Per Common Share	\$ (0.15)	\$ 0.04	\$ (0.11)
Weighted Average Common Shares Outstanding	23,799		23,799

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Notes to Unaudited Condensed Consolidated Financial Statements

Three Months Ended March 31, 2011	Condensed Consolidated Statement of Cash Flows		
	Previously Reported	Adjustments	Restated
Cash Flows From Operating Activities			
Net Loss	\$ (3,682)	\$ 1,035	\$ (2,647)
Adjustments to reconcile net loss to net cash used in operating activities:			
Provision for bad debt	76		76
Share-based compensation	348		348
Depreciation and amortization	288		288
Amortization of deferred financing costs	3		3
Issuance of stock in exchange for services received			
Gain on disposition of property and equipment	(2)		(2)
Changes in assets and liabilities:			
Accounts receivable	(2,240)		(2,240)
Inventories	121		121
Costs and estimated earnings in excess of billings on uncompleted contracts	5,610	(7,037)	(1,427)
Prepaid expenses and other	(231)	1	(230)
Accounts payable	(1,341)	2,135	794
Accrued expenses	(2,570)	2,170	(400)
Billings in excess of costs and estimated earnings on uncompleted contracts	(229)	1,696	1,467
Customer deposits	(113)		(113)
Net cash used in operating activities	(3,962)		(3,962)
Cash Flows From Investing Activities			
Proceeds from sale of property and equipment	2		2
Purchases of property and equipment	(1,109)		(1,109)
Increase in restricted cash	(1)		(1)
Net cash used in investing activities	(1,108)		(1,108)
Cash Flows From Financing Activities			
Payments of long-term debt	(38)		(38)
Cash paid for deferred financing costs	(31)		(31)
Net cash provided by (used) in financing activities	(69)		(69)
Net Decrease in Cash and Cash Equivalents	(5,139)		(5,139)
Cash and Cash Equivalents, at beginning of period	13,016		13,016
Cash and Cash Equivalents, at end of period	\$ 7,877	\$	\$ 7,877

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Lime Energy Co.

Notes to Unaudited Condensed Consolidated Financial Statements

The following tables summarize the adjustments made to our previously reported unaudited results for the three-month period ended June 30, 2011:

Three Months Ended June 30, 2011	Statement of Operations		
	Previously Reported	Adjustments	Restated
Revenue	\$ 24,260	\$ (2,150)	\$ 22,110
Cost of sales	19,767	(607)	19,160
Gross Profit	4,493	(1,543)	2,950
Selling, general and administrative	6,794	(49)	6,745
Amortization of intangibles	153		153
Restructuring charge	1,109		1,109
Operating loss	(3,563)	(1,494)	(5,057)
Other Income (Expense)			
Interest income	34		34
Interest expense	(19)		(19)
Total other (expense) income	15		15
Net loss	(3,548)	(1,494)	(5,042)
Basic and Diluted Loss Per Common Share	\$ (0.15)	\$ (0.06)	\$ (0.21)
Weighted Average Common Shares Outstanding	23,812		23,812

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Lime Energy Co.

Notes to Unaudited Condensed Consolidated Financial Statements

Six Months Ended June 30, 2011	Statement of Operations		
	Previously Reported	Adjustments	Restated
Revenue	\$ 43,240	\$ 3,691	\$ 46,931
Cost of sales	35,132	4,213	39,345
Gross Profit	8,108	(522)	7,586
Selling, general and administrative	13,967	(63)	13,904
Amortization of intangibles	307		307
Restructuring charge	1,109		1,109