

LIME ENERGY CO.  
Form 10-K  
March 31, 2014  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**Form 10-K**

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

**For the fiscal year ended: December 31, 2013**

**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**

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**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**

**28078-4845**

(Address of principal executive offices)

(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
<b>Common Stock \$0.0001 par value</b>	<b>NASDAQ</b>

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.

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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

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, 2013, 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 March 28, 2014, there were 3,726,705 shares of common stock, \$0.0001 par value, of the registrant issued and outstanding.

### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive proxy statement relating to its 2014 Annual Meeting of Stockholders, to be filed within 120 days after registrant's fiscal year end of December 31, 2013, are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated.

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**Cautionary Statement on Forward-Looking Information**

*This annual report contains forward-looking information within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, adopted pursuant to the Private Securities Litigation Reform Act of 1995, which reflect our current views with respect to, among other things, future events. Statements that are not purely historical may be forward-looking. You can identify these forward-looking statements by the use of words such as anticipate, believe, estimate, expect, hope, intend, may, project, plan, should, outlook, potential, continues, future and similar expressions, including when used in the negat*

*Forward-looking statements are subject to various risks and uncertainties. Accordingly, there are or will be important factors that could cause actual results to differ materially from those indicated in these statements, including but not limited to those described under Risk Factors, as well as, among others, the following:*

- *implementation of our operating and growth strategy;*
- *the loss, or renewal on less favorable terms, of utility contracts;*
- *the adequacy of our remediation of our disclosure controls and procedures;*
- *development of new, competitive energy efficiency services;*
- *changes in federal and state regulations including those affecting energy efficiency tax credits and the energy efficiency industry;*
- *a significant decrease in the cost of energy leading to a decrease in the demand for energy efficiency services; and*
- *availability, terms and employment of capital.*

*Although we believe that the expectations reflected in these forward-looking statements are reasonable and achievable, such statements involve risks and uncertainties and no assurance can be given that the actual results will be consistent with these forward-looking statements. Our actual results could differ materially from those anticipated in forward-looking statements as a result of various factors, including matters described in this annual report, including the sections titled Risk Factors, Management's Discussion and Analysis of Financial Condition and Results of Operations and our financial statements and notes thereto.*

*Except as otherwise required by federal securities laws, we do not undertake any obligation to publicly update, review or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances or any other reason.*

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**Part I**

**Item 1. Business.**

We are a leader in designing and implementing demand-side energy efficiency programs that enable our utility clients to reach their underserved markets and achieve their energy reduction goals. Utility-sponsored energy efficiency programs help reduce customer demand for electricity. Using less electricity when demand is high (like on a hot summer day) can mean fewer new power plants and a smaller electric distribution system, which saves money and benefits the environment. We offer utilities energy efficiency program delivery services targeted to their small and medium-sized business customers. Our programs help these businesses use less energy through the upgrade of existing equipment with new, more energy efficient equipment. This service allows the utility to delay investments in transmission and distribution upgrades and new power plants, while at the same time providing benefits to their clients in the form of lower energy bills, improved equipment reliability, reduced maintenance costs and a better overall operating environment.

Our energy efficiency programs operate 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 (HVAC) upgrades. We also have expertise in water conservation, building controls, refrigeration and facility weatherization and we are prepared to offer these measures should they become eligible within a utility program. 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. Our direct install model is a turnkey solution under which we contract with our utility clients to design and market their small and mid-size energy 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. This model makes it easy and affordable for small businesses to upgrade to new, more energy efficient equipment.

We believe the following factors drive demand for small business direct install energy efficiency programs within the utility marketplace:

- **Magnitude:** 93% of all commercial buildings in the U.S. are occupied by small commercial businesses whose annual energy demand is less than 200 kilowatts (kW).
- **Consumption:** These same businesses account for 43% of the electricity consumption and almost 49% of the electricity expenditures.
- **Opportunity:** The large majority of these customers have not yet participated in any demand-side management program and most are still using older, less efficient lighting and HVAC equipment.

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- SBDI Proliferation: U.S. customer-funded electric efficiency budgets totaled \$6.9 billion in 2012, comprised of programs promoting energy efficiency, load management/demand response and evaluation, measurement, and verification. This market is forecasted to grow to between \$9.5 and \$14.3 billion by 2025. Our research of this segment indicates that current SBDI spending is approximately 5% of all U.S. energy efficiency programs. Given the cost-effectiveness of SBDI programs and the associated benefits of customer engagement for the utilities, we believe that the SBDI market will grow to 10% of all customer funded spending by 2020. As we continue to add services to our utility offerings, we believe that we will increase the market opportunity across the customer-funded electric efficiency market.

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- Regulation: Increasing regulatory pressures on utilities to increase the amount of energy efficiency and renewable energy in their resource plans. Twenty seven states now have some form of Energy Efficiency Resource Standard (EERS) or Energy Efficiency Portfolio Standard (EEPS) in place that requires utilities to achieve a target level of energy sales reductions through energy efficiency.
- Politics: Increasing political pressure on utilities to help small businesses manage their energy costs in order to facilitate economic recovery and offset rate increases.
- Resources: Due to their size and lower consumption, utilities have not actively managed their small business customers in the past. They do not have the resources internally to effectively bring products and services to these customers as internal customer relationship personnel are typically focused on large industrial, municipal and commercial customers.

**History and Business Development**

On December 5, 1997, we were formed as Electric City LLC, a Delaware limited liability company. On June 5, 1998, we changed from a limited liability company into a corporation by merging Electric City LLC into Electric City Corp., a Delaware corporation. Trading in our common stock commenced on August 14, 1998, on the OTC Bulletin Board.

On September 13, 2006, we changed our name to Lime Energy Co. to reflect our new Energy Efficiency Services focus. Lime is an acronym for Less is More Efficient, which reflects our focus on reducing energy consumption.

On February 25, 2008, our stock began trading on the NASDAQ Capital Market under the trading symbol LIME.

In June 2008, we acquired Applied Energy Management, Inc. ( AEM ). AEM provided energy engineering and consulting services and energy efficiency services similar to our existing energy efficiency lighting solutions. In addition, it provided mechanical and electrical conservation services, water conservation services and renewable energy solutions primarily for government and municipal facilities through its Energy Service Company ( ESCO ) partners.

During 2009, we began serving utility services clients and in late 2009 we won our first contract to provide utility energy efficiency program services.

During 2011, we implemented a corporate restructuring to better integrate and streamline our operations and reduce costs. As part of this restructuring, we merged many of our subsidiaries, changed the name of Applied Energy Management, Inc., to Lime Energy Services Co. and moved our corporate headquarters to Huntersville, North Carolina.



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On February 28th, 2013, we divested certain assets of our wholly owned subsidiary, Lime Energy Service Company, constituting our energy service companies (ESCO) subcontracting business to PowerSecure, Inc., a subsidiary of PowerSecure International, Inc. (NASDAQ:POWR). We completed this sale to allow us to focus all our resources on utility direct install programs.

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**Products and Services**

*Utility Program Management Services*

As part of our Utility Program Management and Implementation services, we provide utilities with a single point solution for acquiring energy efficiency resources in their customers' facilities. Our wide range of services includes program design, program administration, marketing and sales, customer recruitment, auditing and implementation of energy efficiency projects. These services provide our utility clients a reliable and economically attractive means to meet state-mandated Energy Efficiency Resource Standards and provide targeted relief to overburdened distribution systems, while also stimulating local economies, creating local jobs and making significant reductions to the environmental impacts of their utility operations.

We typically provide our clients with these services in a bundled offering, although they have historically been provided in the industry as stand-alone services. These include:

*Program Design*

We design direct install programs that utilize our technology platform and historical energy efficiency program data, to enable utilities to more cost effectively utilize their demand-side management budgets to acquire energy efficiency resources in customer facilities. Our primary focus has been the small business customer segment, where we have a great deal of historical program data. We have invested heavily since 2009 in the tools and processes that make the implementation of these programs cost-effective in a customer segment that has been traditionally ignored due to the high fixed cost of acquiring each small project.

*Program Administration*

We provide administration of utility direct install programs, managing all aspects of program implementation. In this role we work closely with the utility on areas including customer data management, program data tracking, coordination with utility protocols and standards and program reporting. Our engagements typically include heavy involvement by our technology team with our utility client's IT team for data gathering and reporting, including end-use customer data security.

*Customer Recruitment - Marketing and Sales*

In support of recruiting customers to participate in our utility direct install programs, we design and implement marketing campaigns including telemarketing, brochures and mailers, traditional media, hosted events, social media and neighborhood canvassing. We have a sales force in each program that is responsible for identifying prospects, managing the audit and proposal process and obtaining signed contracts for energy

efficiency project implementation within our contracted territory.

*Auditing and Customer Project Implementation*

We have a technical team that provides audits of a customer's facilities in support of customer proposals. This technical staff is responsible for calculating projected customer energy savings, constructability review and equipment specification. Our construction management team manages our relationships with equipment vendors and installation subcontractors with the responsibility for turnkey project implementation through closeout and customer satisfaction.

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We have a national presence in key states that have instituted mandates and initiatives to support utility energy efficiency programs. We have approximately 125 employees in seven offices across seven states. Our offices are staffed with professionals who have significant expertise in utility energy efficiency program implementation, marketing, sales, energy auditing and construction. Each program team is supported by corporate resources from dedicated functional areas. The majority of our professionals are hired locally in the service territory for our applicable utility client. We are able to maintain a highly scalable business model that deploys our professional employees to both work on ongoing programs and quickly launch programs in new markets.

Our program delivery model is comprised of:

- *Program Startup:* We provide program design services that include development of a go-to market strategy, cost-benefit analysis, energy conservation measure selection and implementation plans. At this time, we also conduct in-depth territory analysis and put in place the resources and infrastructure needed to successfully operate the program.
- *Customer Engagement:* Our customer engagement services include creation of a comprehensive program marketing plan as well as development of a customer database, efficiency measure database, and customized cloud-based audit, proposal, job tracking and real-time reporting tools utilizing our proprietary technology platform.
- *Implementation Services:* We provide complete turnkey implementation services through a network of trade allies comprised of local contractors who have been thoroughly vetted based on experience, safety record and customer satisfaction. Energy efficiency measures offered under current programs include energy efficient lighting upgrades and energy efficient mechanical and electrical retrofit and upgrade. Our field teams of energy advisors consider factors such as current facility infrastructure, best available technologies, building environmental conditions, hours of operation, energy costs, available incentives and covered measures in selecting the best measure to implement at a customer's facility. Once a customer has signed a contract, we purchase the required equipment and supervise the installation performed by one of our trade allies.

**Technology**

Our collaborative, secure technology platform, Lime DirectInstall™, combines cloud-based computing technology with data analytics to provide real-time customer relationship management ( CRM ), field audit data and customer tracking. The platform is integrated throughout our direct install process, from marketing campaigns through purchase orders, material pick lists, waste management and reporting. Our utility clients have access to dashboard views and reporting, which enables them to track program process in real-time. We offer the following solutions as part of our technology suite:

- *Territory Analytics:* Targeted utility customers are analyzed and scored to create an energy reduction profile. We can then implement targeted marketing plans and identify sales opportunities by selected metrics such as behaviors, business type and available efficiency measures.

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- Program Auditing: Mobile technology allows energy auditors to access a utility program's full list of efficiency measures, select the correct measures for the application, produce a customer proposal and obtain a signature for approval, all in one step.
- Project Delivery: Once a proposal is signed, material and subcontractor purchase orders and scope of work documents are automatically generated. Document management, change order

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management and vendor management are all built into the project area of the technology platform.

- Real-time Reporting: We track all program activities on a daily basis to quickly identify problems and allocate resources as needed.

## **Sales and Marketing**

Our sales and marketing efforts are focused on three key areas:

- Developing and deploying direct install programs in states that are driving energy efficiency programs and regulations;
- Expanding existing programs into new territories with affiliates of existing utility clients; and
- Expanding product and service sets within existing programs and new program opportunities.

Our key competitive advantage involves a risk-mitigated offering to our utility clients whereby we bundle the costs of administering these programs and price the installed measures on a holistic basis. By integrating the costs of program administration, customer sales and marketing, project scoping and implementation and reporting into a single cost, we eliminate upfront costs for our utility clients and only charge for delivered savings. Our utility clients realize lower program costs and achieve a more attractive cost/benefit result with a higher level of outcome predictability.

Our primary core competencies and market differentiation include a deep expertise in customer identification and acquisition and project implementation for the small to medium-sized business segments. This involvement in all aspects of the program gives us a second competitive advantage of providing a uniform experience to the business customer on behalf of the utility. These deep customer touch points allow us to deliver additional services on behalf of our utility clients (e.g., multi-measure energy conservation measures, demand response, telemetry and distributed generation). By reducing the upfront sales acquisition costs for these products and services, we can deliver a lower cost to the utilities, which allows them to realize more favorable cost/benefit tests for bundled programs. Similarly, by delivering these products and services through a consistent and existing sales channel, we can realize higher margins.

We intend to leverage the advantages of our predictable delivery model by marketing these cost/benefit advantages to utilities and their regulatory commissions to drive new program funding and increase our likelihood of securing contracts for these programs. We expect these program funding sources to come from newly formed cost recovery mechanisms as well as the reallocation of funds from existing programs that fail to achieve the cost/benefit advantages of our small to medium sized business program model.

## **Clients**

During 2013 we had nine active direct install programs, seven of which are with utilities that are ranked as one of the 25 largest electric utilities in the country. We derived approximately 75% of our 2013 consolidated revenue from continuing operations from our four largest utility programs, with the New Jersey Board of Public Utilities, Niagara Mohawk (National Grid), Long Island Power , and Central Hudson Gas & Electric each responsible for 24%, 22%, 16% and 11% of our revenue, respectively. 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 40%, 25% and 21% of our

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consolidated revenue, respectively. The following is a summary of our current contracts. Substantially all of our business is dependent on these contracts:

<b>Lime Program</b>	<b>Client</b>	<b>Eligible Customers</b>	<b>Contract Term</b>
National Grid SBDI	National Grid	60,000 Small Businesses	2014 - 2015
NJ Direct Install	TRC	50,000 Small Businesses	2011 - 2014
PSE&G Municipal DI	PSE&G	1,000 Municipalities and Non-profits	2012 - 2014
Long Island Power Authority SBDI	Long Island Power Authority	90,000 Small Businesses	2011 - 2015
Central Hudson Gas & Electric SBDI	Central Hudson Gas & Electric	50,000 Small & Medium Businesses	2012 - 2015
NSTAR SBDI	NSTAR	8,300 Small Businesses	2012 - 2014
Duke Energy Progress SBDI	Duke Energy Progress	180,000 Small Businesses	2012 - 2015
AEP Ohio SBDI	AEP Ohio	88,000 Small Businesses	2012 - 2014
Efficiency Maine SBDI	Efficiency Maine	3,000 Small Businesses	2013

#### ***National Grid, Small Business Direct Install Program***

We are providing program management and implementation services for National Grid's Small Business Energy Efficiency Program, one of the nation's most successful Demand Side Management (DSM) programs. We are the exclusive provider for the Western New York and Frontier regions of National Grid's New York State service territory. This program is designed for the hard to reach small commercial & industrial market, serving customers with demand of less than 100 kW. The program provides incentives of up to 70% of project costs for upgrades including energy efficient lighting, lighting controls and refrigeration measures, and gives customers the ability to finance the customer share of the cost on-bill for up to 24 months. We have been the top performer under this program every year since its inception in 2009. In late 2013 this contract was renewed and extended for an additional two years through the end of 2015.

#### ***Central Hudson Gas & Electric, Commercial Lighting Direct Install Program***

As the exclusive provider for this program, Lime Energy provides energy-efficient lighting facility upgrades for business customers throughout Central Hudson's service territory, located in the Mid-Hudson Valley region of New York State. Central Hudson's Direct Install Programs serve small-sized commercial customers, as well as municipalities with peak demand of 100 kW or less, and medium-sized businesses with peak demand of 100kW to 350 kW, providing incentives that cover up to 70 percent of the cost of implementing these energy efficiency projects. To date, Central Hudson has provided more than \$3 million in incentives to help nearly 1,000 businesses upgrade to energy-efficient lighting, resulting in lower energy usage and improved lighting quality. We began work under this contract in late spring 2012 and it will be up for renewal in 2015.

#### ***American Electric Power - Ohio, Express Small Business Direct Install Program***

We are the exclusive provider of comprehensive energy efficiency upgrades for the program. The AEP Ohio Express program serves small commercial customers with annual consumption of less than 200,000 kWh. As part of the program, AEP Ohio incentivizes these customers to reduce wasted energy and lower their monthly electric bills by paying up to 80% of the project cost to complete an energy retrofit. Our 3-year performance-based contract with AEP Ohio has the potential to save participating small business customers over 30,000 MWh of annual energy usage. We began operations under this contract in late 2012 and it will be up for renewal in 2015.





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***Public Service Electric & Gas, Energy Efficiency Direct Install Program***

We are providing comprehensive multi-measure efficiency retro-fits for municipalities, with territory exclusivity in forty-two Northern New Jersey towns under a two-year contract with Public Service Electric & Gas. PSE&G is one of the largest combined electric and gas companies in the United States and is also New Jersey's oldest and largest electric and gas utility. The Program serves municipalities and not-for-profits. The projects are funded in whole by PSE&G, with each municipality re-paying 20% of the project cost through on-bill financing. This 80% incentive allows municipalities to capitalize on PSE&G's commitment to satisfy increasing power needs through investments in efficiency in their customers' facilities. We began to generate revenue under this contract in late 2012 and it will be up for renewal in 2014.

***NSTAR Electric & Gas, Small Business Direct Install Program***

We have territory exclusivity in Newton, Dedham, Needham, and Westwood Massachusetts to provide comprehensive electric and gas energy efficiency upgrades to small and mid-size businesses. NSTAR, the largest Massachusetts-based, investor-owned gas and electric utility, has been a leader in providing customer focused energy efficiency programs for the last two decades in Massachusetts, a state which recently overtook California as the #1 energy efficiency state. We began operating under this contract in the spring of 2012 and it is currently scheduled to expire at the end of 2014, though we plan to withdraw from this contract during 2014 because it is small and marginally profitable.

***Duke Energy (Progress-Carolinas), Small Business Energy Saver Program***

Utilizing our experience with small-business direct install programs, we assisted Duke Energy Progress (formerly Progress Energy) in the design and execution of its first SBDI program. Among other things, we provided assistance with the creation of a cost benefit analysis, public utility commission (PUC) document preparation, selection of energy efficiency measures to be included in the program and design of the overall program delivery process. Once the program was approved by the PUC we began operation as the exclusive authorized contractor under the program, targeting small business customers in the Carolinas with peak demand of 100 kW or less. Under this program, Duke covers up to 80% of the customer's cost to implement an energy efficiency upgrade. We began generating revenue under this program during the first quarter of 2013. The contract will be up for renewal in 2015.

***New Jersey's Clean Energy Program, Small & Medium Business Direct Install Program***

Under this state run program, we have exclusive rights to offer incentives to offset up to 70% of the cost of upgrading lighting and HVAC equipment to small businesses and municipalities with peak demand of up to 200kW located in Bergen, Essex, Passaic, Hudson and Union counties in New Jersey. Projects we have implemented under this program have resulted in savings of over 29.5 million kilowatt hours of electricity and over 348,000 therms of natural gas for New Jersey businesses and municipalities. We have been the top performer under this program since being awarded our contract in early 2010. This contract will be up for renewal in mid-2014.

***Long Island Power Authority, Small Business Energy Efficiency Program***

We are the exclusive provider under this program which covers selected portions of Long Island Power s (LIPA) operating territory on Long Island, New York. This program has a particular focus on reducing demand in load pockets susceptible to brown-outs and/or black-outs on peak demand days. Under this program we are responsible for the program s implementation and management, including marketing, lead development, customer enrollment, auditing and installation management of energy- efficient lighting. The program offers qualifying small businesses with peak demand of up to 145 kW

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incentives of up to 70% toward the cost of implementing energy efficiency upgrades. The program is part of LIPA's \$900-plus million Efficiency Long Island strategy to defer distribution and generation system upgrade costs by reducing peak energy demand. We began operating under this contract during the fourth quarter of 2009 and this contract will be up for renewal in 2015.

***Efficiency Maine (Bangor Hydro & Maine Public Service), Commercial Small Business Direct Install Pilot Program***

We are assisting Bangor Hydro and Main Public Service in the evaluation of the benefits of small business direct install programs by operating this small pilot program in their territories. This pilot program which started in early 2013, targets small commercial businesses, municipalities and non-profit customers with peak demand of 100 kW or less. As part of this pilot program, Efficiency Maine provides incentives to qualifying customers to offset up to 70% of the cost of implementing energy efficient lighting upgrades within their facilities. This pilot program ended on December 31, 2013.

**Competition**

*Utility Program Administrators*

Utility demand-side management programs have existed for more than 20 years in the U.S., primarily in northeast and west coast states. Companies have been providing various forms of management services to utilities for these programs since their inception. Traditionally these suppliers have been large consulting firms that design demand-side management programs for the utility and/or provide program administration, with their fees often unrelated to actual performance of the program. In most cases they set up a network of trade ally contractors that are trained in the incentive program details, with these contractors responsible for marketing, developing and implementing the energy efficiency projects at utility customers' facilities. Typically there is no territorial exclusivity under these programs for trade allies.

*SBDI Firms*

As the effectiveness of traditional demand-side management programs has begun to decline or fail to keep up with the increasing requirements of EERS mandates, utilities have begun to focus on and expand funding to the largely underserved small business segment of their market to make up the shortfall. Utilities that have not historically utilized SBDI programs have begun to implement them and utilities that have used these programs in the past are looking to expand them. As the demand for these programs has grown, new players have entered the market to supply various forms of services to support the programs. These new competitors include vertically integrated providers like Lime as well as a proliferation of smaller regional engineering firms and local contractors. Some of these players have won multiple contracts, sometimes in different regions of the country; however we do not know of any competitor that has won as many contracts as we have.

We believe that our capabilities in marketing, engineering, energy auditing, project management and installation, in combination with the IT platform we have developed to support these activities, permits us to cost effectively deliver the energy efficiency goals of these utilities. We believe that these capabilities have been demonstrated by the success we have achieved on our contracts to date, where our performance in most cases has exceeded the goals given us by our utility customers and the performance of any competitor.



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We expect that competition in this market will continue to increase as the number and size of utility programs increases. However, we believe that we are well positioned to compete for and win additional utility contracts in the future as a result of our experience, capabilities, track record of success and proprietary IT platform.

**Compliance with Environmental Laws**

The sale of our products and services generally does not require compliance with federal, state or local environmental laws. We use licensed disposal firms to dispose of old lamps, lighting ballasts or other products that may contain heavy metals or other potential environmental hazards.

**Intellectual Property**

As of December 31, 2013, we had three registered trademarks or service marks and one copyright.

**Employees**

As of March 21, 2014 we had 122 full time employees and 3 part time or temporary employees, of which 16 were management and corporate staff, 6 were in information technology, 17 supported program administration, 60 were engaged in sales, sales support or marketing and 26 were engaged in project management, product installation, customer support and field service.

**Item 1A. Risk Factors.**

**Risks Related to our Business**

*Our business model has changed significantly several times since our inception in response to a constantly changing and evolving market, which may make it difficult to evaluate our business and prospects, and may expose us to increased risks and uncertainties.*

Our business has evolved substantially over time through organic growth and strategic acquisitions. We started operating in the energy efficiency services business in June 2006, when we launched our commercial and industrial energy efficiency services business. In 2008, we made an acquisition that gave us access to the public sector energy efficiency market. In late 2009, we won our first utility energy efficiency contract and began to build this new business. In 2011, we scaled back our original commercial and industrial business and combined it with our public sector business, and in February 2013 we sold the public sector business. Accordingly, we have only a limited history of generating

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revenues under our current business model, and the future revenue potential of our current business model in the rapidly evolving energy efficiency solutions market is uncertain. As a result of our short operating history under our current business model, we have limited financial data that can be used to evaluate our business, strategies, performance and prospects or an investment in our common stock. Any evaluation of our business and our prospects must be considered in light of our limited operating history under our current business model and the risks and uncertainties encountered by companies with new business models. To address these risks and uncertainties, among other things, we must do the following:

- maintain and expand our current utility relationships and develop new relationships;
- maintain, enhance and add to our existing energy efficiency solutions;
- execute our business and marketing strategies successfully;
- attract, integrate, retain and motivate qualified personnel; and
- respond to competitive developments.

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We may be unable to accomplish one or more of these objectives, which could cause our business to suffer and could have a material adverse effect on our business, results of operations and financial condition. In addition, accomplishing many of these goals might be very expensive, which could adversely impact our operating results and financial condition. Additionally, any predictions about our future operating results may not be as accurate as they could be if we had a longer operating history under our current business model.

***We have incurred significant operating losses since inception and may not achieve or sustain profitability in the future.***

We have experienced annual losses and negative cash flow from operations since our inception and we currently have an accumulated deficit. We must continue to increase sales while maintaining or improving our margins to operate profitably and sustain positive operating cash flows. We may be required to reduce the prices of our services in order to win new contracts or retain existing contracts. If we reduce prices, we may not be able to reduce costs sufficiently to achieve acceptable profit margins. As we strive to grow our business, we have spent and expect to continue to spend significant funds for general corporate purposes, including working capital, marketing, recruiting and hiring additional personnel. To the extent that our revenues do not increase as quickly as these costs and expenditures, our results of operations and liquidity will be adversely affected. If we experience slower than anticipated revenue growth or if the margins we earn on our sales are lower than expected or our operating expenses exceed our expectations, we may not achieve profitability in the future or if we achieve profitability in the future, we may not be able to sustain it.

***We may not be able to raise additional capital to fund future operating losses.***

Because of our negative cash flow, we have funded our operations through the issuance of common and preferred stock and debt. Our ability to continue to operate until our cash flow turns positive on a consistent basis may depend on our ability to continue to raise additional funds through the issuance of equity or debt. We may not be able to raise additional funds on terms that are acceptable to us or at all. If we are not successful in raising any needed additional funds, we might have to significantly scale back or delay our growth plans, seek to sell the Company or cease operations altogether. Any reduction or delay in our growth plans could materially adversely affect our ability to compete in the marketplace, take advantage of business opportunities and develop or enhance our services and technologies, which could have a material adverse effect on our business, results of operations and financial condition.

***Any award granted the plaintiffs under the current stockholder lawsuit, in combination with the cost of defending against the lawsuits, could exceed the limits of our director's and officer's insurance.***

Several stockholder lawsuits were filed against current and former members of our executive management shortly after we announced that investors should not rely on our historical financial statements. These lawsuits have been consolidated into one lawsuit, which we agreed to settle in January 2014. The settlement still needs final court approval, for which a hearing is scheduled for May 2014. In addition two derivative lawsuits were filed against current and former members of our Board of Directors, also in connection with the announcement, which have been consolidated. The Company is generally obligated to indemnify its executives and board members from claims related to their position with the Company, including paying defense costs. We have a Directors and Officers insurance policy to help offset the cost of that indemnification. Subject to any defenses to coverage that the insurance carrier successfully asserts, this policy will cover the cost of that indemnification, up to the aggregate limit of \$10 million, including our \$150,000 retention, which we must pay. The insurance carrier has not asserted any defenses to coverage, but has reserved its right to do so.





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Our motion to dismiss the derivative suit was granted on March 25, 2013. However, the plaintiffs have 30 days to appeal this decision. The plaintiffs on the derivative suit have not specified the amount of damages they are seeking, but if they successfully appeal the motion to dismiss and are ultimately awarded an amount that exceeds the limits of our D&O insurance policy after paying the settlement on the stockholders' suit and defense costs or if the insurance carrier successfully asserts any defenses to coverage, we will need to use our available cash to pay any defense costs or awards not covered by our D&O policy. Any such payments, if large enough, could have an adverse impact on our financial condition, possibly to the point that we would be unable to continue as a going concern.

***The Securities and Exchange Commission is investigating us and the results of that investigation could have a material adverse effect on our business, results of operations and financial condition.***

The Securities and Exchange Commission has not completed its investigation of our revenue recognition practices and financial reporting. If, as a result of that investigation, the SEC takes action against us or our officers, it could have a material adverse effect on our business, results of operations and financial condition.

***We have identified a material weakness in our internal control over financial reporting which could, if not sufficiently remediated, result in material misstatements in our financial statements.***

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting, as defined in Rule 13a-15(f) under the Securities Exchange Act. As disclosed in Item 9A, our management identified a deficiency in our internal control over financial reporting related to revenue recognition that constitutes a material weakness.

A material weakness is defined as a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. As a result of this material weakness, our management concluded that our internal control over financial reporting was not effective based on criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control - An Integrated Framework. We have implemented a remediation plan designed to address this material weakness. If our remedial measures are insufficient to address the material weakness or if additional material weaknesses or significant deficiencies in our internal control are discovered or occur in the future, our consolidated financial statements may contain material misstatements and we could be required to restate our financial results in the future, which could cause investors and other users to lose confidence in our financial statements, limit our ability to raise capital and have a negative effect on the trading price of our common stock.

***Our customers and investors may lose confidence in us because of our restatement.***

During 2013, we restated our consolidated financial statements for certain prior periods to correct certain errors in those financial statements. The restatement may cause customers and investors to lose confidence in the accuracy of our financial disclosures, may raise reputational issues for our business and may result in a decline in share price or the loss of customers, each of which could have a material adverse effect on our business, results of operations and financial condition.

*It is difficult for us to estimate our future quarterly operating results.*

Despite the sale of our public sector business, our revenue remains somewhat seasonal. Historically, this seasonality has caused our revenue, operating income, net income and cash flow from operating activities to be lower in the first two quarters and higher in the last two quarters of each year. In

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In addition, utility contracts can be subject to changes in budget allocations for the programs. In the past we experienced a situation where funds allocated for a program we were operating under were diverted to other uses with no warning, reducing our expected revenue under the program. As a result, we may be unable to forecast our revenue accurately, and a failure to meet our revenue or expense forecasts could have an immediate and negative impact on the market price of our common stock.

***We operate in a highly competitive industry and if we are unable to compete successfully our revenue and profitability will be adversely affected.***

The energy efficiency solutions market is highly competitive, and we expect competition to increase and intensify as the energy efficiency solutions market continues to evolve. We face strong competition primarily from other providers of energy efficiency solutions, local electrical and mechanical contractors and engineering firms, lighting and lighting fixture manufacturers and lighting fixture distributors. We compete primarily on the basis of client service and support, quality and scope of services and products, including proprietary technology, cost of services and products, name recognition and our performance track record for services provided.

In addition to our existing competitors, new competitors such as large national or multinational engineering and/or construction companies could enter our markets. Many of these current and potential competitors are better capitalized than we are, have longer operating histories and strong existing client relationships, greater name recognition, and more extensive engineering, technology and sales and marketing capabilities. Competitors could focus their substantial resources on developing a competing business model or energy efficiency solutions that may be potentially more attractive to clients than our products or services. In addition, we may face competition from other products or technologies that reduce demand for electricity. Our competitors may also offer energy efficiency solutions at reduced prices in order to improve their competitive positions. Any of these competitive factors could make it more difficult for us to attract and retain clients, require us to lower our prices in order to remain competitive, and reduce our revenue and profitability, any of which could have a material adverse effect on our results of operations and financial condition.

***Our success is largely dependent upon the skills, experience and efforts of our senior management and our ability to attract and retain other skilled personnel, and the loss of their services or our inability to attract and retain such personnel could have a material adverse effect on our ability to expand our business or to maintain profitable operations.***

Our future success will depend largely on the skills, efforts, and motivation of our executive officers and other senior managers. The loss of the service of executive officers and other senior managers or our inability to attract or retain other qualified personnel could have a material adverse effect on our ability to expand our business, implement our strategy or maintain profitable operations.

In addition, to execute our growth strategy and maintain our margins, we must attract and retain other skilled personnel with an extensive understanding of the energy efficiency regulatory framework and an effective sales force that can accurately price and manage our clients' energy efficiency solution contracts. Competition for hiring these individuals is intense. If we fail to attract and retain highly qualified skilled personnel, our business and growth prospects could be materially adversely affected.

***We depend upon a limited number of utility contracts to generate substantially all of our revenue.***

With the sale of our public sector business, GES-Port Charlotte, our regional service budget and FRR contract, all of our revenue will be derived from seven utility contracts, with four of these contracts generating 80% to 90% of the total revenue. While these contracts are typically multi-year, the utilities are required to re-bid them at the end of their term, therefore our ability to retain these contracts is not

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assured. It is also possible that utilities could have a change of strategy for achieving their energy efficiency goals, de-emphasizing the small-business direct install programs under which we currently operate. A utility could also decide to reduce the incentives available to small businesses under our program, thereby reducing the effectiveness of our sales efforts. The loss of, or substantial reduction in sales to any of our utility clients could have a material adverse effect on our business, results of operations and financial condition.

***Failure of our subcontractors to properly and effectively perform their services in a timely manner could cause delays in the delivery of our energy efficiency solutions.***

Our success depends on our ability to provide quality, reliable energy efficiency solutions in a timely manner, which in part requires the proper removal and installation of lighting, mechanical and electrical systems and other products by the subcontractors upon which we depend. Almost all of our energy efficiency solutions are installed by contractors or subcontractors. Any delays, malfunctions, inefficiencies or interruptions in the installation of our energy efficiency solutions caused by our subcontractors could put us at risk of a utility terminating a contract pre-maturely, jeopardize our ability to retain a contract when it comes up for renewal, and harm our reputation in the marketplace. Such delays could also result in additional costs that could affect the profit margin of our projects.

***If our information technology systems fail, or if we experience operation interruptions, then our business, results of operations and financial condition could be materially adversely affected.***

The efficient operation of our business is dependent on our information technology systems. We rely on those systems generally to manage the day-to-day operation of our business, manage relationships with our clients and maintain our financial and accounting records. The failure of our information technology systems, our inability to successfully maintain and enhance our information technology systems, or any compromise of the integrity or security of the data we generate from our information technology systems, could have a material adverse effect on our results of operations, disrupt our business and make us unable, or severely limit our ability, to respond to client demands. In addition, our information technology systems are vulnerable to damage or interruption from:

- earthquake, fire, flood and other natural disasters;
- employee or other theft;
- attacks by computer viruses or hackers;
- power outages; and
- computer systems, Internet, telecommunications or data network failure.

Any interruption of our information technology systems could result in decreased revenue, increased expenses, increased capital expenditures, client dissatisfaction and lawsuits, any of which could have a material adverse effect on our results of operations or financial condition.

*Product liability and personal injury claims could have a material adverse effect on our business, results of operations and financial condition.*

We face exposure to product liability and personal injury claims in the event that our energy efficiency solutions cause bodily injury or property damage. Since the majority of our products use electricity, it is possible that the products we sell could result in injury, whether due to product malfunctions, defects, improper installation or other causes. Further, we face exposure to personal injury claims in the event that an individual is injured as a result of our negligence or the negligence of one of our subcontractors. Moreover, we may not have adequate resources in the event of a successful claim against us. A successful product liability or personal injury claim against us that is not covered by

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insurance or is in excess of our available insurance limits could require us to make significant payments of damages which could materially adversely affect our results of operations and financial condition.

*Our retrofitting process frequently involves responsibility for the removal and disposal of components containing hazardous materials and at times requires that our contractors or subcontractors work in hazardous conditions, either of which could give rise to a claim against us.*

When we retrofit a client's facility, we assume responsibility for removing and disposing of its existing lighting fixtures. Certain components of these fixtures contain trace amounts of mercury and other hazardous materials. Older components may also contain trace amounts of polychlorinated biphenyls, or PCBs. We utilize licensed and insured hazardous wastes disposal companies to remove and/or dispose of such components. Failure to properly handle, remove or dispose of the components containing these hazardous materials in a safe, effective and lawful manner could give rise to liability against us, or could expose our workers, our subcontractor's workers or other persons to these hazardous materials, which could result in claims against us. Further, our workers and subcontractor's workers are sometimes required to work in hazardous environments that present a risk of serious personal injury which could result in claims against us. A successful personal injury claim against us that is not covered by insurance or is in excess of our available insurance limits could require us to make significant payments of damages and could materially adversely affect our results of operations and financial condition.

*Our ability to use our net operating loss carry forwards will be subject to additional limitation, which could potentially result in increased future tax liability.*

Generally, a change of more than 50% in the ownership of a company's stock, by value, over a three-year period constitutes an ownership change for U.S. federal income tax purposes. An ownership change may limit a company's ability to use its net operating loss carry forwards attributable to the period prior to such change. We have sold or otherwise issued shares of our common stock in various transactions sufficient to constitute an ownership change, including our public offering in 2009 and the conversion of all of our outstanding preferred stock and the conversion of all of our outstanding convertible notes. As a result, if we earn net taxable income, our ability to use our pre-change net operating loss carry forwards, which amounted to \$147 million as of December 31, 2013, to offset U.S. federal taxable income will be subject to limitations, which will likely result in increased future tax liability. In addition, future shifts in our ownership, including transactions in which we may engage, may cause additional ownership changes, which could have the effect of imposing additional limitations on our ability to use our pre-change net operating loss carry forwards.

### **Risks Related to Ownership of Our Common Stock**

*The future trading market for our common stock may not be active on a consistent basis and the market price of our common stock could be subject to significant fluctuations.*

Trading in our common stock has been limited and, at times, volatile since our shares were listed on The NASDAQ Capital Market in February 2008. The trading volume of our common stock in the future depends in part on our ability to increase our revenue and reduce or eliminate our operating losses. If we are unable to achieve these goals, the trading market for our common stock may be negatively affected, which may make it difficult for you to sell your shares. An active trading market for our common stock may not develop or, if developed, be sustained, and the trading price of our common stock may fluctuate substantially.



The price of our common stock may also fluctuate as a result of:

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- variations in our operating results;
- announcements by us, our competitors or others of significant business developments, changes in client relationships, acquisitions or expansion plans;
- analysts' earnings estimates, ratings and research reports;
- the depth and liquidity of the market for our common stock;
- speculation in the press;
- strategic actions by us or our competitors, such as sales promotions or acquisitions;
- actions by institutional and other stockholders;
- recruitment or departure of key personnel; or
- domestic and international economic factors and trends, some of which may be unrelated to our performance.

The stock markets, in general, periodically experience volatility that is sometimes unrelated to the operating performance of particular companies. These broad market fluctuations may cause the trading price of our common stock to decline.

In the past, following a period of volatility in the market price of a company's securities, securities class action litigation has often been brought against a company. Because of the potential volatility of our common stock price, we may become the target of securities litigation in the future. Securities litigation could result in substantial costs and divert management's attention and resources from our business.

***We expect our quarterly revenue and operating results to fluctuate. If we fail to meet the expectations of market analysts or investors, the market price of our common stock could decline substantially, and we could become subject to securities litigation.***

Our business is somewhat seasonal and can be affected by cyclical factors outside of our control. Our quarterly revenue and operating results have fluctuated in the past and are likely to continue to vary from quarter to quarter in the future. You should not rely upon the results of one quarter as an indication of our future performance. Our revenue and operating results may fall below the expectations of market analysts or investors in some future quarter or quarters. Our failure to meet these expectations could have an adverse effect on the market price of our common stock. In addition, these fluctuations in our revenue may result in volatility in our results of operations and/or have an adverse effect on the market price of our common stock. If the price of our common stock falls significantly we may be the target of securities litigation. If we become involved in this type of litigation, regardless of the outcome, we could incur substantial legal costs, management's attention could be diverted from the operation of our business, and our reputation could be damaged, which could have a material adverse effect on our business, results of operations and/or financial condition.

*If securities analysts do not publish research or reports about our business or if they downgrade their evaluations of our stock, the price of our stock could decline.*

The trading market for our common stock depends in part on the research and reports that industry or financial analysts publish about us or our business. Since announcing the need to restate our historical results, all of the analysts that were following us have dropped or suspended coverage. If these analysts don't resume coverage or if we cannot find other analysts willing to pick up coverage of our stock the price of our stock could stagnate or decline. If one or more analysts do pick up coverage on us, but subsequently downgrades their estimates or evaluations of our stock, the price of our stock could decline.

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***Due to the concentration of holdings of our stock, a limited number of investors may be able to control matters requiring common stockholder approval or could cause our stock price to decline through future sales because they beneficially own a large percentage of our common stock.***

As of March 28, 2014, there were 3,726,705 shares of our common stock outstanding and shares of Series A and Series B Preferred Stock convertible into an additional 4,852,768 shares of common stock that vote on as converted basis, of which two investors own 50.6%. As a result of their significant ownership, these investors may have the ability to exercise a controlling influence over our business and corporate actions requiring stockholder approval, including the election of our directors, a sale of substantially all of our assets, a merger between us and another entity or an amendment to our certificate of incorporation. This concentration of ownership could delay, defer or prevent a change of control and could adversely affect the price investors might be willing to pay in the future for shares of our common stock. Also, in the event of a sale of our business, these investors could be able to seek to receive a control premium to the exclusion of other common stockholders.

A significant percentage of the outstanding shares of our common stock, including the shares beneficially owned by these holders, can be sold in the public market from time to time, subject to limitations imposed by federal securities laws. The market price of our common stock could decline as a result of sales of a large number of our presently outstanding shares of common stock by these investors or other stockholders in the public market or due to the perception that these sales could occur. This could also make it more difficult for us to raise funds through future offerings of our equity securities or for you to sell your shares if you choose to do so.

The large concentration of our shares held by these two stockholders could result in increased volatility in our stock price due to the limited number of shares available in the market.

***Raising additional capital or consummation of additional acquisitions through the issuance of equity or equity-linked securities could dilute your ownership interest.***

It is possible that we may find it necessary to raise capital again sometime in the future or to consummate additional acquisitions through the issuance of equity or equity-linked securities. If we raise additional funds in the future through the issuance of equity securities or convertible debt securities, our existing stockholders will likely experience dilution of their present equity ownership position and voting rights. Depending on the number of shares issued and the terms and conditions of the issuance, new equity securities could have rights, preferences, or privileges senior to those of our common stock. Depending on the terms, common stock holders may not have approval rights with respect to such issuances.

***Provisions of our charter and by-laws, in particular our blank check preferred stock, and in the Delaware General Corporation Law may prevent or discourage an acquisition of our Company that would benefit our stockholders.***

Provisions of our charter and by-laws may make it more difficult for a third party to acquire control of our Company, even if a change-in-control would benefit our stockholders. In particular, shares of our preferred stock may be issued in the future without further stockholder approval and upon those terms and conditions, and having those rights, privileges and preferences, as our Board of Directors may determine. In the past, we have issued preferred stock with dividend and liquidation preferences over our common stock, and with certain approval rights not accorded to our common stock, and which was convertible into shares of our common stock at a price lower than the market price of our common stock.

The rights of the holders of our common stock will be subject to, and may be adversely affected by, the

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rights of the holders of any preferred stock we may issue in the future. The issuance of our preferred stock, while providing desirable flexibility in pursuing possible additional equity financings and other corporate purposes, could have the effect of making it more difficult for a third party to acquire control of us. This could limit the price that certain investors might be willing to pay in the future for shares of our common stock and discourage these investors from acquiring a majority of our common stock. In addition, the price that future investors may be willing to pay for our common stock may be lower due to the conversion price and exercise price granted to investors in any such private financing.

In addition, as a Delaware corporation, we are subject to certain Delaware anti-takeover provisions, including the application of Section 203 of the Delaware General Corporation Law, which generally restricts our ability to engage in a business combination with any holder of 15% or more of our capital stock. Our Board of Directors could rely on Delaware law to prevent or delay an acquisition of us.

*Compliance with changing regulation of corporate governance and public disclosure may result in additional expenses.*

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes Oxley Act of 2002 and the Dodd-Frank Act, and rules subsequently implemented by the Securities and Exchange Commission, or SEC, and The NASDAQ Stock Market, have imposed substantial requirements on public companies, including with respect to public disclosure, internal control, corporate governance practices and other matters. Our management and other personnel are devoting substantial amounts of time and resources to comply with these evolving laws, regulations and standards. Moreover, these laws, regulations and standards have significantly increased our legal and financial compliance costs and have made some activities more time-consuming and costly. In addition, we could incur significant costs to remediate any material weaknesses we identify through these efforts. We currently are evaluating and monitoring development with respect to these evolving laws, regulations and standards, and cannot predict or estimate the amount of additional costs we may incur or the timing of such costs. These new regulatory requirements may result in increased general and administrative expenses and a diversion of management's time and attention from revenue generating activities to compliance activities, which could harm our business prospects and could have a negative effect on the trading price of our common stock.

**Item 2. Properties.**

Our headquarters are located at 16810 Kenton Drive, Suite 240, Huntersville, North Carolina. This office is approximately 13,145 square feet and our lease runs through February 2022.

Other properties that are used for sales and administration include:

<b>Location:</b>	<b>Square Feet</b>	<b>Lease Expiration</b>
Beacon, NY	4,800	December 2015
Farmingdale, NY	11,100	July 2016
Gahanna, OH	2,650	April 2015

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Newton, MA	4,594	May 2015
Williamsville, NY	5,824	November 2015
Woodbridge, NJ	11,500	February 2017

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We believe that the space and location of our current headquarters will be sufficient for the level of sales and production projected for the current year.

**Item 3. Legal Proceedings.**

*Satterfield v. Lime Energy Co. et al.*, Case No. 12-cv-5704 (N.D. Ill.): This is a putative class action on behalf of purchasers of our securities between May 14, 2008 and December 27, 2012, inclusive. Following an announcement by us dated July 17, 2012, four separate putative class actions were filed alleging violations of the federal securities laws and naming as Defendants the Company and three of its officers, John O'Rourke, Jeffrey Mistarz and David Asplund. The four cases were consolidated. Pursuant to the Private Securities Litigation Reform Act of 1995 (the "PSLRA"), on October 26, 2012, the Court appointed Lead Plaintiffs. Lead Plaintiffs filed a Consolidated Amended Class Action Complaint on January 18, 2013, alleging that Defendants issued false and misleading statements concerning Lime's revenues during the class period and thereby artificially inflated our stock price. On January 21, 2014, following several months of arm's length negotiations, the Lead Plaintiffs and Defendants entered into a stipulation of settlement under which this matter would be fully and finally settled. As part of the settlement, Defendants agreed to cause \$2.5 million to be paid into a settlement fund, which \$2.5 million has been provided by the Company's directors and officers liability insurers. On January 28, 2014, Judge Sara Ellis entered an order granting preliminary approval of the class action settlement and notice to the settlement class in the matter. The settlement remains subject to final approval by the court. The final approval hearing has been set for May 13, 2014.

*Kuberski v. Lime Energy Co. et al.*, Case No. 12-cv-7993 (N.D. Ill.): This is a putative shareholder derivative action alleging that certain of our officers and directors breached their fiduciary duties to the Company from May 14, 2008 through the present by failing to maintain adequate internal controls and causing the Company to issue false and misleading statements concerning our revenues. An initial derivative complaint was filed on October 5, 2012. A second derivative action was filed on March 5, 2013. The two cases were consolidated and the Court appointed Lead Counsel for the Plaintiffs on April 9, 2013. On May 9, 2013, the Plaintiffs filed a Verified Consolidated Shareholder Derivative Complaint. On June 10, 2013, Defendants filed a motion to dismiss for failure to make a demand on the Board of Directors of the Company or to adequately plead why demand should be excused, as required by Rule 23.1 of the Federal Rules of Civil Procedure and Delaware law. Briefing on the motion to dismiss was completed as of July 22, 2013. On March 25, 2014, the Court granted Defendants' motion to dismiss and dismissed the case with prejudice. Plaintiffs have thirty days to file a notice of appeal.

*SEC Investigation.* The Securities and Exchange Commission is conducting an investigation of our revenue recognition practices and financial reporting. On September 11, 2012, the Commission issued a subpoena for documents. We are cooperating with the Commission's investigation.

**Item 4. Mine Safety Disclosures.**

Not applicable.



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Since February 25, 2008, our stock has traded on the NASDAQ Capital Market under the trading symbol LIME.

The following table sets forth the quarterly high and low selling prices for our common stock as reported on the Bulletin Board and NASDAQ since January 1, 2012.

	<b>High</b>	<b>Common Stock</b>	<b>Low</b>
<b>Fiscal Year Ended December 31, 2012:</b>			
Fiscal Quarter Ended March 31, 2012	\$ 25.06	\$	19.39
Fiscal Quarter Ended June 30, 2012	\$ 21.56	\$	15.40
Fiscal Quarter Ended September 30, 2012	\$ 16.38	\$	4.76
Fiscal Quarter Ended December 31, 2012	\$ 5.18	\$	3.29
<b>Fiscal Year Ended December 31, 2013:</b>			
Fiscal Quarter Ended March 31, 2013	\$ 6.09	\$	3.64
Fiscal Quarter Ended June 30, 2013	\$ 5.60	\$	4.62
Fiscal Quarter Ended September 30, 2013	\$ 6.65	\$	3.29
Fiscal Quarter Ended December 31, 2013	\$ 4.08	\$	2.71

**Holdings**

As of March 21, 2014 we had approximately 792 holders of record, approximately 3,537 beneficial owners of our common stock and 3,726,705 shares of common stock outstanding.

**Dividends**

No dividends were declared or paid on our common stock during the fiscal years ended December 31, 2012, and 2013.

We have never declared or paid any cash dividends on our common stock and we do not anticipate paying any cash dividends in the foreseeable future.

**Recent Sales of Unregistered Securities**

On February 4, 2014, we raised \$2.0 million from the sale of a package of securities to Greener Capital Fund II, L.P. consisting of 200,000 shares of series B preferred stock and a five-year warrant to purchase 282,686 shares of our common stock at \$2.83 per share. The series B preferred stock is convertible at the holder's election into shares of our common stock at \$2.83 per share (subject to adjustment). At the current conversion price these shares of series B preferred are convertible into 706,714 shares of our common stock.

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**Purchases of Equity Securities by the Issuer and Affiliated**

None.

**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.*

**Overview**

**General**

We are a leader in designing and implementing demand-side 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.

**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.

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We charge our utility clients based on an agreed to rate schedule based on the item installed or the savings generated. A typical project for a small business utility client can take anywhere from a few hours to a few weeks to complete. During 2013, we provided services to over 6,800 small business customers under our nine utility programs.

### *Revenue Recognition*