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, 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

LIME ENERGY CO.

(Exact name of registrant as specified in its charter)

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 x No o

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 x No o

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 o   Accelerated Filer o   Non-Accelerated Filer o   Smaller reporting company x

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

3,593,422 shares of the registrant s common stock, $.0001 par value per share, were outstanding as of November 12, 2013.

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LIME ENERGY CO.

FORM 10-Q

For The Quarter Ended September 30, 2013

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PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

Lime Energy Co.

Condensed Consolidated Balance Sheets

(in thousands)

	September 30, 2013 (unaudited)	December 31, 2012 (1)
Assets		
Current Assets		
Cash and cash equivalents	$ 2,647	$ 2,012
Restricted cash	500	500
Accounts receivable, net	9,050	9,564
Inventories	14	17
Costs and estimated earnings in excess of billings on uncompleted contracts	5,083	3,327
Prepaid expenses and other	365	481
Current assets of discontinued operations	3,983	12,005
Total Current Assets	21,642	27,906
Net Property and Equipment	1,630	1,685
Long-Term Receivables	317	214
Deferred Financing Costs, Net		35
Long-term assets of discontinued operations	3,553	9,297
Intangibles, Net		10
Goodwill	6,009	6,009
	$ 33,151	$ 45,156

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Lime Energy Co.

Condensed Consolidated Balance Sheets

(in thousands, except share data)

	September 30, 2013 (unaudited)	December 31, 2012 (1)
Liabilities and Stockholders Equity		
Current Liabilities		
Accounts payable	$ 12,927	$ 5,710
Accrued expenses	3,006	2,579
Billings in excess of costs and estimated earnings on uncompleted contracts	665	1,506
Customer deposits	116	41
Current liability to trade creditor	3,484	2,029
Current liabilities of discontinued operations	5,994	15,978
Total Current Liabilities	26,192	27,843
Long-Term Debt		4,748
Long-Term Liability to Trade Creditor	509	3,241
Long-Term Liabilities of Discontinued Operations		5
Total Liabilities	26,701	35,837
Stockholders Equity		
Preferred stock, $0.01 par value; 2,000,000 authorized 927,992 and 0 issued and outstanding as of September 30, 2013 and December 31, 2012, respectively	9	
Common stock, $.0001 par value; 50,000,000 shares authorized 3,593,422 and 3,576,855 issued and outstanding as of September 30, 2013 and December 31, 2012, respectively		
Additional paid-in capital	201,122	191,411
Accumulated deficit	(194,681)	(182,092)
Total Stockholders Equity	6,450	9,319
	$ 33,151	**$** 45,156

See accompanying notes to condensed consolidated financial statements

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

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Lime Energy Co.

Unaudited Condensed Consolidated Statements of Operations

(in thousands, except per share data)

(Unaudited)

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Revenue	$ 13,354	$ 8,622	$ 37,513	$ 25,173
Cost of sales	9,651	6,978	27,433	19,976
Gross Profit	3,703	1,644	10,080	5,197
Selling, general and administrative	5,697	6,461	17,142	16,432
Amortization of intangibles		6	10	19
Operating loss	(1,994)	(4,823)	(7,072)	(11,254)
Other Income (Expense)				
Interest income	13	23	39	70
Interest expense	(1,530)	(5)	(2,052)	(21)
Total other (expense) income	(1,517)	18	(2,013)	49
Loss from continuing operations	(3,511)	(4,805)	(9,085)	(11,205)
Discontinued Operations:				
Loss from operation of discontinued business	(329)	(1,792)	(3,504)	(4,242)
Net loss	$ (3,840)	$ (6,597)	$ (12,589)	$ (15,447)
Preferred stock dividend	(22)		(22)	
Net loss available to common	(3,818)	(6,598)	(12,567)	(15,447)
Basic and diluted loss per common share from				
Continuing operations	$ (0.98)	$ (1.34)	$ (2.53)	$ (3.20)
Discontinued operations	(0.09)	(0.50)	(0.97)	(1.21)
Basic and Diluted Loss Per Common Share	$ (1.07)	$ (1.84)	$ (3.50)	$ (4.41)
Weighted Average Common Shares Outstanding	3,593	3,578	3,594	3,500

See accompanying notes to condensed consolidated financial statements

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Lime Energy Co.

Unaudited Condensed Consolidated Statement of Stockholders Equity

(in thousands, unaudited)

	Common Shares	Common Stock	Series A Preferred Shares	Series A Preferred Stock	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders Equity
Balance, December 31, 2012	**3,577**	$		$	$ 191,411	$ (182,092)	$ 9,319
Conversion of subordinated notes			678	7	6,755		6,762
Issuance of series A preferred stock			250	2	2,498		2,500
Issuance costs					(12)		(12)
Preferred stock dividends					(22)		(22)
Shares issued for benefit plans	16						
Share-based compensation					492		492
Net loss						(12,589)	(12,589)
Balance, September 30, 2013	**3,593**	$	**928**	$ **9**	$ **201,122**	$ **(194,681)**	$ **6,450**

See accompanying notes to condensed consolidated financial statements.

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Lime Energy Co.

Unaudited Condensed Consolidated Statements of Cash Flows

(in thousands, unaudited)

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Cash Flows From Operating Activities				
Loss Before Stock Dividends	$ (3,840)	$ (6,597)	$ (12,589)	$ (15,447)
Adjustments to reconcile net loss to net cash used in operating activities:				
Provision for bad debt	432	615	773	1,143
Share-based compensation	115	200	492	1,675
Depreciation and amortization	261	468	793	1,388
Asset impairment	27		27	
PIK notes issued for interest	191		575	
Preferred stock dividends	(22)		(22)	
Amortization of deferred financing costs	56	12	108	40
Amortization of original issue discount	1,307		1,439	
Issuance of stock in exchange for services received				20
Loss on disposition of property and equipment	(127)	(2)	(114)	(2)
Changes in assets and liabilities:				
Accounts receivable	(626)	2,558	(362)	12,734
Inventories			3	(11)
Costs and estimated earnings in excess of billings on uncompleted contracts	(32)	(2,029)	(1,756)	(2,658)
Prepaid expenses and other	152	28	116	159
Assets of discontinued operations	107	2,434	1,695	3,031
Accounts payable	2,675	4,133	7,217	1,140
Accrued expenses	181	386	428	(824)
Billings in excess of costs and estimated earnings on uncompleted contracts	(1,150)	(368)	(841)	(3,061)
Other current liabilities	(692)	(62)	(1,202)	(201)
Liabilities of discontinued operations	(681)	(3,573)	(48)	(8,069)
Net cash used in operating activities	(1,666)	(1,797)	(3,268)	(8,943)
Cash Flows From Investing Activities				
Proceeds from sale of ESCO business	128		1,988	
Proceeds from sale of property and equipment	1		1	
Purchases of property and equipment	(150)	(54)	(437)	(787)
Increase in restricted cash				225
Net cash (used in) provided by investing activities	(21)	(54)	1,552	(562)
Cash Flows From Financing Activities				
Payments of long-term debt	(60)	(57)	(137)	(183)
Proceeds from the issuance of preferred stock	2,500		2,500	
Proceeds from issuance of common stock				2,550

Costs related to stock issuances		(12)		(93)		(12)		(13)
Proceeds from issuance of shares for benefit plans				171				171
Net cash provided by financing activities		2,428		21		2,351		2,525
Net Increase (Decrease) in Cash and Cash Equivalents		741		(1,830)		635		(6,980)
Cash and Cash Equivalents, at beginning of period		1,906		3,140		2,012		8,290
Cash and Cash Equivalents, at end of period	$	2,647	$	1,310	$	2,647	$	1,310

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	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Supplemental Disclosure of Cash Flow Information:				
Cash paid during the period for interest (in thousands):				
Continuing operations	$		$	
Discontinued operations	65	53	151	202

See accompanying notes to condensed consolidated financial statements.

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Lime Energy Co.

Notes to Unaudited Condensed Consolidated Financial Statements

Note 1 Basis of Presentation

The accompanying unaudited condensed consolidated financial statements (the Financial Statements) of Lime Energy Co. (Lime Energy and, together with its subsidiaries, the Company , we , us or our) have been prepared in accordance with Rule 10-01 of Regulation S-X promulgated b 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 Financial Statements 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 s ability to continue as a going concern is ultimately dependent on its ability to achieve profitability before it exhausts its currently available capital, sheds non-core assets and/or obtains additional funding. The Company has decided to focus its resources on its utility business and to reduce overhead costs to the extent possible. Consistent with this strategy, during 2013, it sold its public sector business, its landfill-gas-to-electricity generating facility in Punta Gorda, Florida and its regional service business. It raised $2.5 million during the third quarter of 2013 through the sale of shares of its preferred stock and management continues to closely monitor and forecast its cash requirements and is prepared to attempt to raise additional capital if they foresee 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 improve 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 results of operations for the three-month and nine-month periods ended September 30, 2013 and 2012 are not necessarily indicative of the results to be expected for the full year.

The December 31, 2012 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, 2012.

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Notes to Unaudited Condensed Consolidated Financial Statements

Note 2 - Share-Based Compensation

A committee of the Board of Directors grants stock options and restricted stock under the Company s 2008 Long Term Incentive Plan, as amended (the Plan). All of the options have been granted at a price equal to or greater than the market price of the Company s stock on the date of grant. Substantially all stock option grants outstanding under the Plan vest ratably over three years and expire 10 years from the date of grant. In addition to the Plan, the Company gave employees the right to purchase shares at a discount to the market price under its employee stock purchase plan (ESPP). The ESPP expired on December 31, 2012, but the Company s Board of Directors has authorized management to seek stockholder approval at the Company s November 2013 annual meeting to renew the ESPP for a one year period commencing January 1, 2014.

During the second quarter of 2010, the Company issued options to certain employees that vest upon achievement of certain financial objectives in combination with a minimum market price for its common stock during a five-year period (the Cliff Options). The Company assesses the probability of achieving these objectives at the end of each month and recognizes expense accordingly.

In addition to the Plan and the ESPP, the Board of Directors grants restricted stock to non-employee directors under the Company s 2010 Non-Employee Director Stock Plan (the Directors Plan). Restricted stock granted to date under the Directors Plan vest 50% upon grant and 50% on the first anniversary of the grant date if the director is still serving on the Board of Directors on the vesting date.

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

The following table summarizes the Company s total share-based compensation expense for the three-month and nine-month periods ended September 30, 2013 and 2012:

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Stock options	$ 72	$ 200	$ 307	$ 1,256
Restricted stock	43	60	185	438
Employee Stock Purchase Plan		(60)		(19)

	$	115	$	200	$	492	$	1,675

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Notes to Unaudited Condensed Consolidated Financial Statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	**2012**	**2013**	**2012**
Weighted average fair-value per option granted	$ 1.98	$ 11.76	$ 1.98	$ 12.39
Significant assumptions (weighted average):				
Risk-free rate	0.02%	0.10%	0.02%	0.03%
Dividend yield	0.00%	0.00%	0.00%	0.00%
Expected volatility	61.80%	68.8%	61.80%	70.6%
Expected life (years)	5.7	6.0	5.7	6.0
Expected turn-over rate	4.80%	4.80%	4.80%	5.20%
Expected exercise multiple	2.20	2.20	2.20	2.20

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

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