LIME ENERGY CO.
Form S-1/A
August 28, 2009

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FINANCIAL STATEMENTS

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As filed with the Securities and Exchange Commission on August 28, 2009

Registration No. 333-161296

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 1
to
FORM S-1

REGISTRATION STATEMENT
UNDER THE SECURITIES ACT OF 1933

LIME ENERGY CO.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**1700**	**36-4197337**
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

1280 Landmeier Road, Elk Grove Village, Illinois, 60007, (847) 437-1666
(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

Jeffrey R. Mistarz
Chief Financial Officer and Treasurer
Lime Energy Co.
1280 Landmeier Road
Elk Grove Village, Illinois, 60007
(847) 437-1666
(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

Copies to:

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1901 Avenue of the Stars, Suite 1700	**One South Dearborn**
Los Angeles, CA 90067-6018	**Chicago, Illinois 60603**
(310) 286-1700	**(312) 853-7000**

Approximate Date of Commencement of Proposed sale to the Public: As soon as practicable after this registration statement becomes effective.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. o

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

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 Exchange Act).

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company ý

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED AUGUST 28, 2009

PROSPECTUS

5,000,000 Shares

Common Stock

We are offering 5,000,000 shares of our common stock. Our common stock is listed on The NASDAQ Capital Market under the symbol "LIME." The last reported sale price of our common stock on August 28, 2009 was $7.00 per share.

Investing in our common stock involves a high degree of risk. See "Risk Factors" beginning on page 9 of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public offering price	$	$
Underwriting discount	$	$
Proceeds to us (before expenses)	$	$

We have granted the underwriters an option for a period of 30 days after the date of this prospectus to purchase up to 750,000 additional shares of common stock on the same terms and conditions set forth above to cover over-allotments, if any.

The underwriters expect to deliver the shares to purchasers on or about , 2009.

Wedbush Morgan Securities **Canaccord Adams**

The date of this prospectus is , 2009.

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You should rely only on the information contained in this document or to which we have referred you. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these securities. The information in this document may only be accurate on the date of this document.

PROSPECTUS SUMMARY

This summary highlights information contained in other parts of this prospectus. You should read the entire prospectus carefully, especially the matters discussed under "Risk Factors," the Lime Energy consolidated financial statements, the Applied Energy Management financial statements, the Lime Energy pro forma consolidated financial information and the accompanying introductions and notes to those statements included elsewhere in this prospectus, before deciding to invest in shares of our common stock. Unless the context otherwise requires, the terms "Lime Energy," the "Company," "we," "our," "us" and similar expressions refers to Lime Energy Co. and its subsidiaries, and the term "common stock" means Lime Energy Co.'s common stock, par value $0.0001 per share.

Overview

We are a leading provider of integrated energy engineering, consulting and implementation solutions specializing in improving the energy efficiency of our clients' facilities, thereby reducing their operating costs and carbon emissions. We focus on two specific markets: the commercial and industrial market, including utilities, and the public sector market, working primarily with energy service companies ("ESCOs"). Our clients include commercial and industrial businesses, property owners and managers, utilities, and ESCOs serving U.S. government and educational institutions. We focus on deploying solutions to reduce the energy-related expenditures of our clients' facilities and the impact of their energy use on the environment, including energy efficient lighting upgrades, energy efficiency mechanical and electrical retrofit and upgrade services, water conservation, weatherization and renewable project development and implementation. We provide energy efficiency solutions across all of our clients' facilities, ranging from high-rise office buildings to manufacturing plants, retail sites, mixed use complexes and large, government sites to small, local facilities.

We believe the following factors continue to drive demand for energy efficiency services by facility owners in both the U.S. commercial and industrial and public sector markets:

- the potential for immediate return on investment and demonstrable long-term cost savings resulting from the installation of energy efficient solutions;
- concerns regarding the substantial and volatile cost of energy, the adverse implication of global climate change and the desire for energy independence;
- increasing pressure on corporations to establish and attain sustainability goals;
- increasing regulatory pressures on utilities to include energy efficiency and renewable energy in their resource plans;
- the availability of rebates and tax incentives both at a federal and state level for organizations that reduce their energy consumption;
- existing and prospective government mandates to improve the efficiency of federal facilities;
- the allocation of funds under the American Recovery and Reinvestment Act of 2009 ("ARRA") to promote energy efficiency and alternative energy projects in federal, state and local municipal facilities; and
- the migration towards a low-carbon economy which will potentially place a price or tax on the carbon emissions of our clients.

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We offer our clients a full range of services to address the energy efficiency needs of their facilities based on our ability to identify and deliver significant return on our clients' investments, improve the quality of their physical workspaces, maximize their operational savings and reduce their maintenance costs. Our turnkey services include:

Energy Engineering and Consulting: We apply our engineering expertise to analyze each client's energy consumption and operational needs and develop customized energy efficiency and renewable energy solutions. Our energy engineering and consulting services include sustainability consulting, energy master planning, project development services, design engineering and facility e-commissioning. We also provide design review and analysis of new construction projects to maximize energy efficiency and sustainability, project management of energy-related construction, and processing and procurement of incentive and rebate applications.

Implementation: We provide complete turnkey implementation services for a range of energy efficiency and renewable energy projects, including energy efficient lighting upgrades, energy efficiency mechanical and electrical retrofit and upgrade services, water conservation, weatherization and renewable project development and implementation, including solar, biomass and geothermal. We consider factors such as current facility infrastructure, best available technologies, building environmental conditions, hours of operation, energy costs, available utility rebates and tax incentives, and installation, operation and maintenance costs of various efficiency alternatives. Our professionals' extensive knowledge in energy efficiency solutions enables us to apply the most appropriate, effective and proven technologies available in the marketplace.

We serve a wide range of commercial and industrial and public sector clients. Our commercial and industrial clients include many Fortune 500 companies for which we provide our energy efficiency solutions directly, as well as utilities for which we manage energy efficiency portfolio projects. Our public sector clients include government agencies and educational institutions, which we serve both through our relationships with ESCOs and directly. ESCOs are awarded project contracts with the public sector as prime contractors, and we provide energy efficiency expertise to develop and implement tailored solutions under these contracts.

We believe we have a national presence in all the key states which have instituted mandates and initiatives to support facility energy efficiency projects. We have approximately 380 employees in 23 offices across 13 states. Our offices are staffed with professionals who have significant expertise in facility energy efficiency engineering and consulting and the implementation of a wide range of related technologies for both the commercial and industrial and the public sector markets. We are able to maintain a highly scalable and leveragable platform by deploying our professional employees to work on projects in either market based on our work requirements and local end client needs.

Our revenue increased by $7.8 million, or 13.7%, to $65.1 million during 2008 from $57.3 million during 2007 on a pro forma basis reflecting our revenues combined with those of Applied Energy Management, Inc., which we acquired on June 11, 2008. Our revenue for the first six months of 2009 has grown by 57.3% to $29.5 million from pro forma revenue of $18.8 million during the same period in 2008. We have invested significant capital and resources to build our business infrastructure to ensure that we have the operational platform to support continued future growth.

Market Overview

According to the U.S. Department of Energy ("DOE"), the United States consumes more energy than any other country in the world. The United States is primarily dependent on traditional fossil fuels to supply energy for end users, which includes transportation, heating and electricity. Recently, nearly all energy costs have risen due to a variety of factors, including the concern over a limited supply of fuel to meet increasing global demand.

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We believe that energy efficiency, which we define as reducing the amount of energy used to operate facilities and produce goods and services, is the most immediate, opportunistic and economic means to reduce energy costs to the end user and promote environmental stewardship. At a minimum, energy efficiency accomplishes the following four objectives:

- delivers immediate energy cost savings;
- reduces greenhouse gas emissions to help alleviate climate change;
- stimulates the economy through the creation of new jobs in the "green" segment; and
- bolsters national security by reducing dependence on foreign oil.

The value of energy efficiency as a resource is affirmed by the increasing emphasis placed on it in regulation, legislation and appropriations. The American Council for an Energy Efficient Economy ("ACEEE") estimates that $300 billion was invested in energy efficiency technologies and infrastructure in the U.S. in 2004, and that annual investment may grow to $700 billion by 2030 in conjunction with the goal of reducing energy use by 20%. Total additional investment from 2008 to 2030 could reach nearly $7 trillion. We believe these investments in energy efficiency solutions will have a significant impact on both the demand for and costs of electricity, while improving the overall sustainability of the global energy market.

Our Competitive Strengths

We believe that we have the following competitive strengths:

Compelling Value Proposition with Demonstrable ROI. Our energy efficiency solutions guarantee the reduction of our clients' operating expenses, improve their facilities' appearance, safety and functionality, and produce a significant return on their investment. For example, in lighting projects, we calculate that our clients typically achieve first-year returns on their investments of 40% to 100%, generally recovering the cost of our services in less than two years in the form of reduced energy bills and maintenance costs as well as utility and government agency rebates and tax incentives.

Extensive Technical Expertise. We provide our clients with a full range of energy efficiency solutions leveraging our deep experience in this rapidly evolving marketplace. Our extensive knowledge of a wide range of service and technology options for our clients allows us to provide effective and comprehensive energy efficiency solutions including energy efficiency engineering and consulting as well as the development and implementation of energy efficient lighting, mechanical, electrical, water, weatherization, and renewable energy solutions.

Diversification Across Service Lines and End Markets. While many of our competitors focus on one type of service or technology, we offer a broad spectrum of vertically integrated, turnkey energy efficiency solutions that can be deployed on a national scale. We purchase our products from independent third party manufacturers and therefore can provide unbiased product recommendations to our clients.

National Service Capabilities. Unlike smaller local and regional providers, we are able to service our clients on a national scale. Our reputation for quality service and reference base of existing clients have helped us to expand our business to include many large, nationally recognized companies operating across a variety of industries, including many Fortune 500 companies.

Strong and Longstanding Client Relationships. We have developed deep relationships with commercial and industrial and public sector clients both managed directly by us and through our longstanding relationships with many of the major ESCOs that participate in that market.

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Significant Repeat Revenue. The depth and breadth of our geographic coverage and our service offerings enables us to increase the value of our client relationships by increasing the services we can offer them. Our longstanding relationships with national clients provide an opportunity for us to provide additional energy efficiency solutions to them across multiple facilities on a regional and national basis. Most of our engineering and consulting work results in repeat revenue in the form of additional engineering work, implementation of specific solutions or expansion of the engineering work to additional client facilities.

Growth Strategy

Since launching our Energy Efficiency Services business in June 2006, we have significantly increased our revenue. Our revenue for the first six months of 2009 increased by 57.3% to $29.5 million from our pro forma revenue of $18.8 million for the first six months of 2008, reflecting significant organic growth. We intend to continue to leverage our competitive strengths and to continue to grow our business by employing the following growth strategies:

Penetrate Opportunities in Existing Commercial and Industrial Clients and Increase Client Base. We have a broad client base that includes Fortune 500 companies and large property managers and owners. These clients own or manage a significant number of facilities across the United States. For many of these clients, we have implemented only a portion of our energy efficiency solutions at a limited number of the facilities they manage or own. We also have relationships with major utility companies who actively seek our project management and implementation services for energy efficiency projects.

Capitalize on Existing ESCO Relationships and Establish New Relationships in the Public Sector Market. We have long-established relationships with ESCOs that participate in the performance contracting market for the federal government and public sector, working on projects such as schools and universities as well as city and county facilities, throughout the U.S. and internationally. We believe these market opportunities will grow as the federal government awards new ESPC contracts and additional states enact legislation that enables performance contracting as a viable contracting vehicle.

Capitalize on Government Funding Energy Efficiency Initiatives. We are seeking to ensure that when ARRA and other incentive funds become available, we are optimally positioned to benefit as our clients deploy these funds on facility energy efficiency projects. We have an active dialogue with our ESCO relationships and an established platform ready to begin work on energy efficiency projects once these funds are deployed by federal, state and local agencies. In addition, we intend to work collaboratively with energy efficiency-focused non-government organizations to capitalize on the government mandates currently in place.

Expand Our Financing Business. Upfront capital expenditure requirements remain the primary purchasing obstacle for many of our prospective commercial and industrial clients. With a strengthened balance sheet following this offering, we plan to resume our provision of financing mechanisms to enable prospective clients to benefit from extended payment terms, eliminating upfront capital requirements, while enabling immediate positive cash flow from the implementation of energy efficiency projects.

Deepen Our Service Offerings Based on Customer Demand and ROI Opportunities. Constant changes in energy efficiency technologies often create opportunities for us to provide new solutions to our clients generally three to five years after completion of an energy efficiency project. As new products and technologies become available and costs decline to the point that the ROI opportunity from implementation becomes compelling, we can introduce these improved technologies to existing clients as a means of further reducing their operating costs.

Continue to Manage Operating Costs. We believe we have established a highly scalable business model that will enable us to continue our growth while maintaining relatively low incremental operating expenses. We plan to continue to scale our platform with new hires, while we aggressively leverage our relationships with energy efficiency-focused organizations, improve sales force productivity, manage key supplier relationships and maintain a disciplined cost structure.

Pursue Targeted Strategic Acquisitions. Given the highly fragmented nature of the energy efficiency solutions market, we believe there are numerous potential acquisition opportunities. Our senior management team historically has identified and successfully integrated prior acquisitions. We intend to selectively pursue acquisitions to leverage our established infrastructure, strategically address select target markets, add complementary expertise and cross-sell our services and technologies to an acquired company's existing client base.

Risk Factors

Our business is subject to a number of risks that you should understand before making an investment decision. These risks are discussed more fully in the section entitled "Risk Factors" following this prospectus summary. Some of these risks are:

- we have a limited operating history under our current business model in a rapidly evolving market, which may make it difficult to evaluate our business and prospects, and may expose us to increased risks and uncertainties;
- we have incurred significant operating losses since inception and may not achieve or sustain profitability in the future;
- unavailability of additional funding in the future may impair our growth;
- the current economic downturn could diminish the demand for our services and products;
- it is difficult for us to estimate our future quarterly results;
- we operate in a highly competitive industry and if we are unable to compete successfully our revenue and profitability will be adversely affected; and
- we may be unable to obtain sufficient bonding capacity to support certain service offerings.

Corporate Information

We were organized as a Delaware limited liability company in December 1997 and merged into a Delaware corporation in June 1998. In September 2006, our corporate name was changed from Electric City Corp. to Lime Energy Co. Our common stock trades on The NASDAQ Capital Market under the symbol "LIME".

Our executive offices are located at 1280 Landmeier Road, Elk Grove Village, Illinois, 60007-2410, and our telephone number is (847) 437-1666. Our website address is *www.lime-energy.com.* The information on, or that can be accessed through, our website is not part of this prospectus.

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The Offering

Common stock offered by us	5,000,000 shares
Common stock to be outstanding after this offering	22,667,427 shares
Use of proceeds	We intend to use $3.3 million of our net proceeds from this offering to repay indebtedness. We intend to use the remaining net proceeds from this offering for working capital and general corporate purposes. See "Use of Proceeds."
NASDAQ Capital Market symbol	"LIME"
Risk Factors	See "Risk Factors" and other information included in this prospectus for a discussion of some of the factors you should consider before deciding to purchase our common stock.

The share information above is based on 17,356,461 shares of our common stock outstanding as of August 26, 2009 and includes:

- 3,777,705 shares of our common stock issued on the conversion of all of our outstanding Series A-1 convertible preferred stock on August 10, 2009;

- 487,054 shares of common stock issued on the conversion of $3.1 million of our convertible subordinated notes on August 10, 2009; and

- 310,966 shares of our common stock that would have been issued had the remaining $1.9 million of outstanding convertible subordinated notes converted on August 10, 2009, assuming a conversion price based on an offering price of $6.50 per share, the closing price of our stock on July 31, 2009. The holders of those notes have agreed to convert their notes on the date this offering closes at the lower of the offering price less the underwriting discount and $7.00 per share.

The total shares outstanding on August 26, 2009 excludes:

- 2,568,395 shares of our common stock issuable upon the exercise of options outstanding as of August 26, 2009 with a weighted average exercise price of $16.78 per share; and

- 910,942 shares of our common stock issuable upon the exercise of outstanding warrants as of August 26, 2009, with a weighted average exercise price of $9.21 per share.

Unless we indicate otherwise, the information in this prospectus assumes that the underwriters will not exercise their over-allotment option, and that the options and warrants described above will not be exercised. Unless we indicate otherwise, the information in this prospectus reflects the conversion of our Series A-1 Convertible Preferred Stock and $3.1 million of our outstanding convertible subordinated notes on August 26, 2009 and assumes the conversion of the remaining $1.9 million of our outstanding convertible subordinated notes based on an assumed offering price of $6.50 per share.

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Summary Historical and Pro Forma Combined Financial Information and Other Data

The following table shows our summary historical and pro forma combined financial and other data and should be read along with "Pro Forma Consolidated Financial Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations," the Lime Energy consolidated financial statements, the AEM consolidated financial statements, and the accompanying notes to those statements included in this prospectus.

The summary financial data set forth below for the years ended December 31, 2008, 2007 and 2006 is derived from the Lime Energy audited financial statements included in this prospectus. Lime Energy's audited financial statements included in this prospectus for the years ended December 31, 2008, 2007, and 2006 have been revised to reflect Lime Energy's Energy Technology segment as a discontinued operation, which the Company sold on August 10, 2009. The Lime Energy summary financial data for the six-month periods ended June 30, 2008 and 2009 is derived from our unaudited financial statements; however, such information reflects all adjustments (consisting solely of normal recurring adjustments), which, in the opinion of management, are necessary for a fair statement of results for the interim periods. The summary financial information for the six-month period ended June 30, 2008 has been revised to reflect Lime Energy's Energy Technology segment as discontinued operations.

Our pro forma results of operations data present:

- our pro forma results of operations for the year ended December 31, 2008, as if the acquisition of AEM, which we completed on June 11, 2008, had occurred on January 1, 2008; and

- our pro forma results of operations for the six months ended June 30, 2008, as if the acquisition of AEM, which we completed on June 11, 2008, had occurred on January 1, 2008.

Our pro forma as adjusted balance sheet as of June 30, 2009, presents selected balance sheet information as of June 30, 2009, on a pro forma basis adjusted to reflect the conversion of the Series A-1 Convertible Preferred Stock and the convertible subordinated notes, and the net proceeds of this offering, assuming the underwriters do not exercise their over-allotment option, being used to retire $3.4 million in notes payable, which was the outstanding balance on the notes as of June 30, 2009.

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Our pro forma and as adjusted results are not necessarily indicative of what actually would have occurred if the acquisition had been consummated, and this offering had been completed, on the dates indicated, nor are they necessarily indicative of our future operating results.

	Year Ended December 31,				Six Months Ended June 30,		
	2006	2007	2008	2008 (pro forma)	2008 (unaudited)	2008 (pro forma)	2009 (unaudited)
Statement of Operations Data:							
Revenue	$ 5,488,693	$ 16,383,779	$ 54,975,084	$ 65,111,756	$ 8,624,744	$ 18,761,416	$ 29,519,945
Cost of sales	5,095,566	12,755,928	43,281,049	51,682,262	7,688,012	16,089,225	23,872,726
Gross profit	393,127	3,627,851	11,694,035	13,429,494	936,732	2,672,191	5,647,219
Selling, general and administrative	9,082,411	9,259,455	18,100,309	22,306,277	6,821,421	11,027,389	10,781,982
Amortization of intangibles	625,625	1,486,509	1,568,107	2,129,504	381,666	1,263,491	658,201
Impairment loss	1,183,525						
Operating loss	(10,498,434)	(7,118,113)	(7,974,381)	(11,006,287)	(6,266,355)	(9,618,689)	(5,792,964)
Interest expense, net	(3,061,856)	(668,069)	(2,581,336)	(3,393,233)	(860,977)	(1,574,968)	(839,875)
Loss from continuing operations	(13,560,290)	(7,786,182)	(10,555,717)	(14,399,520)	(7,127,332)	(11,193,657)	(6,632,839)
Loss from discontinued operations	(2,887,224)	(7,766,546)	(2,479,809)	(2,479,809)	(1,636,630)	(1,636,630)	(1,029,223)
Net loss	$ (16,447,514)	$ (15,552,728)	$ (13,035,526)	$ (16,879,329)	$ (8,763,962)	$ (12,830,287)	$ (7,662,062)
Preferred stock dividends	(24,347,725)		(288,014)	(288,014)			(1,202,185)
Net loss available to common stockholders	$ (40,795,239)	$ (15,552,728)	$ (13,323,540)	$ (17,167,343)	$ (8,763,962)	$ (12,830,287)	$ (8,864,247)
Basic and diluted loss per common share from continuing operations(1)	$ (9.86)	$ (1.03)	$ (1.29)	$ (1.66)	$ (0.91)	$ (1.29)	$ (0.65)
Basic and diluted loss per common share(1)	$ (10.61)	$ (2.06)	$ (1.59)	$ (1.94)	$ (1.12)	$ (1.48)	$ (0.74)
Weighted average common shares outstanding(1)	3,844,087	7,541,960	8,381,697	8,835,463	7,838,010	8,691,210	12,054,940

(1) During 2007 we effected a 1-for-15 reverse stock split. During 2008 we effected a 1-for-7 reverse stock split. The weighted average common shares outstanding and the earnings per share values have all been adjusted to reflect these reverse splits.

	Six Months Ended June 30, 2009 (unaudited)	
Balance Sheet Data:	**Actual**	**Pro forma As Adjusted(1)**
Cash and cash equivalents	$ 4,673,040	31,578,408
Working capital	6,327,608	40,011,094
Total assets	57,844,825	84,747,580
Long-term debt, including current portion	6,175,506	787,887
Total stockholders' equity	$ 31,776,080	66,052,228

(1) Pro forma as adjusted balance sheet reflects the conversion of our Series A-1 Preferred Stock and convertible subordinated notes, repayment of $3.4 million of notes payable from the net proceeds of the offering, assuming an offering price of $6.50 per share, the closing price of our common stock on July 31, 2009, and the sale of certain assets of our Energy Technology segment.

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RISK FACTORS

Investing in our common stock involves a high degree of risk and uncertainty. Before making an investment in our common stock, you should carefully consider the following risks, as well as the other information contained in this prospectus, including the Lime Energy consolidated financial statements, the AEM consolidated financial statements, the pro forma consolidated financial information and the accompanying introductions and notes to those statements, and "Management's Discussion and Analysis of Financial Condition and Results of Operations." If any of the following risks occur, our business, prospects, financial condition and results of operations or future growth could suffer. As a result, the trading price of our common stock could decline and you may lose all or part of your investment. The risks described below are not the only risks facing our Company. Additional risks not presently known to us or which we currently consider immaterial also may adversely affect our Company.

Risks Related to Our Business

We have a limited operating history under our current business model in a rapidly 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. Our current business model has only been in operation since June 2006, when we launched our Energy Efficiency Services business. Accordingly, we have only a limited history of generating 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 relationships and develop new relationships with commercial and industrial businesses, property owners and managers and energy service companies, or "ESCOs," serving government and educational institutions;
- maintain and enhance our existing energy efficiency solutions;
- execute our business and marketing strategies successfully;
- respond to competitive developments; and
- attract, integrate, retain and motivate qualified personnel.

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 losses and negative cash flow from operations since our inception and we currently have an accumulated deficit. We must increase sales while maintaining or improving our margins to operate profitably and sustain positive operating cash flows. We may be required to reduce

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the prices of our services in order to increase sales. 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: (i) general corporate purposes, including working capital, marketing, recruiting and hiring additional personnel; and (ii) acquisitions. 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. We expect to continue to incur operating losses in future periods. If we experience slower than anticipated revenue growth or if the gross 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. As we grow, our working capital requirements are likely to increase. We may need additional funds in the form of a bank working capital line to support this increased working capital. If in the future we cannot obtain bank financing it could limit our ability to grow our business to the point that it is profitable on a consistent basis.

In addition, 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 may depend on our ability to continue to raise additional funds through the issuance of equity or debt. If we are not successful in raising any needed additional funds, we might have to significantly scale back or delay our growth plans, or sell or shut down some of our businesses. 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.

The current widespread economic downturn and uncertainty and turmoil in the equity and credit markets could adversely impact our clients, diminish the demand for our services and products, and harm our operations and financial performance.

The energy efficiency solutions marketplace has experienced rapid evolution and growth, but we do not know how sensitive it is to a recession or downturn in the general economy. The current recession could harm the economic health of our clients and consequently decrease the demand for our products or services, particularly in the commercial and industrial markets. The recession also may cause reductions or elimination of utility or government energy efficiency incentive programs used to partially fund the costs of customer projects. In addition, increased competition during the recession may result in lower sales, reduced likelihood of profitability, and diminished cash flow to us.

Further, the sales of our energy efficiency solutions are made on the basis of contracts that permit our customers to terminate the engagement prior to completion rather than long-term purchase commitments and consequently our clients may cancel, delay or otherwise modify their purchase commitments in response to economic pressures with little or no consequence to them and with little or no notice to us. Whether in response to an economic downturn affecting an industry or a client's specific business including its bankruptcy or insolvency, any cancellation, delay or other modification in our clients' orders could significantly reduce our revenue, impact our working capital, cause our operating results to fluctuate from period to period and make it more difficult for us to predict our revenue.

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

