

LIME ENERGY CO.
Form S-1/A
February 09, 2007

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As filed with the Securities and Exchange Commission on February 8, 2007

Registration No. 333-136992

**SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Amendment No. 3
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 (State or other jurisdiction of incorporation or organization) **3699** (Primary Standard Industrial Classification Code Number) **36-4197337** (I.R.S. Employer Identification No.)

1280 Landmeier Road, Elk Grove Village, Illinois, 60007, (847) 437-1666
(Address, and Telephone Number of 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, and Telephone Number of Agent for Service)

Copies to:
Andrew H. Connor
Schwartz Cooper Chartered
180 N. LaSalle Street, Suite 2700
Chicago, Illinois 60601
(312) 346-1300

Approximate Date of Commencement of Proposed sale to the Public:

From time to time after the effective date of this registration statement.

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.

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.

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.

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.

CALCULATION OF REGISTRATION FEE

Title of Each Class of	Amount To	Proposed Maximum	Proposed Maximum Aggregate	Amount of
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Securities to be Registered	Be Registered (1)	Offering Price Per Share (2)	Offering Price (2)	Registration Fee (3)
Common stock, par value \$0.0001	40,753,588	\$ 1.05	\$42,791,267	\$4,578.67

(1) In the event of a stock split, stock dividend or similar transaction involving the common stock of the registrant, in order to prevent dilution, the number of shares of common stock registered hereby shall be automatically adjusted to cover the additional shares of common stock in accordance with Rule 416 under the Securities Act of 1933, as amended.

(2) Estimated in accordance with Rule 457(c) under the Securities Act of 1933, as amended, solely for the purpose of calculating the registration fee based on the average of the high and low sale prices of the common stock of Lime

Energy Co.
reported on the
OTC Bulletin
Board on
February 6,
2006.

- (3) Partially offset
by \$4,280.41
previously paid
with the S-1
filed on
August 30,
2006.

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 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 it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

**PROSPECTUS
LIME ENERGY CO.
40,753,588 Shares of Common Stock**

This prospectus relates to up to 40,753,588 shares of our common stock, par value \$0.0001 per share, which may be offered for sale by selling stockholders named in this prospectus. The selling stockholders can sell these shares on any exchange on which the shares are listed, in privately negotiated transactions or by any other legally available means, whenever they decide and at the prices they set. We may issue up to 484,667 of these shares upon exercise of common stock warrants issued by the Company held by the selling stockholders. We will not receive any of the proceeds from the sale of these shares of our common stock, but may receive proceeds from the exercise of any of such warrants.

Our common stock is quoted on the OTC Bulletin Board under the symbol LMEC. On February 6, 2007, the closing sale price for shares of our common stock was \$1.05 per share.

Our principal executive office is located at 1280 Landmeier Road, Elk Grove Village, Illinois, 60007. Our telephone number at that address is (847) 437-1666. Our web site is located at <http://www.lime-energy.com>. The information contained on our web site is not part of this prospectus.

Investing in our common stock involves risks described beginning on page 8.

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.

The date of this prospectus is February 8, 2007.

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ABOUT THIS PROSPECTUS

This prospectus is a part of a registration statement that we have filed with the Securities and Exchange Commission (SEC or Commission) using a shelf registration process. You should rely only on the information provided in this prospectus or any supplement or amendment. We have not authorized anyone else to provide you with additional or different information. You should not assume that the information in this prospectus or any supplement or amendment is accurate as of any date other than the date on the front of this prospectus or any supplement or amendment.

Unless the context otherwise requires, Lime Energy, the Company, we, our, us and similar expressions refer 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.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus includes forward-looking statements that reflect our current expectations and projections about our future results, performance, prospects and opportunities. We have tried to identify these forward-looking statements by using words such as may, should, expect, hope, anticipate, believe, intend, plan, estimate and similar. These forward-looking statements are based on information currently available to us and are subject to a number of risks, uncertainties and other factors, including the factors set forth under Risk Factors, that could cause our actual results, performance, prospects or opportunities in 2007 and beyond to differ materially from those expressed in, or implied by, these forward-looking statements. These factors include, without limitation, our limited operating history, our history of operating losses, fluctuations in retail electricity rates, our reliance on licensed technologies, customers acceptance of our new and existing products, the risk of increased competition, our ability to successfully integrate acquired businesses, products and technologies, the recent changes in our management, our ability to manage our growth, our possible need for additional financing in the future and the terms and conditions of any financing that might be consummated, the possible volatility of our stock price, the concentration of ownership of our stock and the potential fluctuation in our operating results. 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. Except as otherwise required by Federal securities laws, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances or any other reason, after the date of this prospectus.

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PROSPECTUS SUMMARY

The following summary is qualified in its entirety by the more detailed information appearing elsewhere in this prospectus.

Our Company

We were organized as Electric City LLC, a Delaware limited liability company, on December 5, 1997. On June 5, 1998 we merged Electric City LLC with and into Electric City Corp., a Delaware corporation. On June 10, 1998, we issued approximately six (6%) percent of our then issued and outstanding common stock to the approximately 330 stockholders of Pice Products Corporation (Pice), an inactive, unaffiliated company with minimal assets, pursuant to the merger of Pice with and into Electric City. This merger facilitated the establishment of a public trading market for our common stock. Trading in our common stock commenced on August 14, 1998 through the OTC Bulletin Board under the trading symbol ECCC . From December 12, 2000 through June 9, 2006, our common stock traded on the American Stock Exchange under the trading symbol ELC . Beginning on June 12, 2006, our common stock began trading once again on the OTC Bulletin Board under the trading symbol ELCY. On September 13, 2006 we changed our name to Lime Energy Co. after merging with a wholly owned subsidiary which was set up solely for the purpose of effecting a name change. On September 22, 2006 our stock began trading on the OTC Bulletin Board under the trading symbol LMEC.

Our Products

We are a developer, manufacturer and integrator of energy saving technologies. Our energy saving products are the eMAC line of HVAC controllers and the EnergySaver system. The EnergySaver reduces energy consumed by lighting, typically by 20% to 30%, with minimal lighting level reduction. This technology has been installed in applications in commercial buildings, factories and office structures, as well as street lighting and parking lot lighting.

On May 3, 2005 we acquired Maximum Performance Group, Inc. (MPG), a technology-based provider of energy and asset management products and services. MPG currently manufactures and markets its eMAC line of controllers for commercial and industrial HVAC and lighting applications. The eMAC line of microprocessor based controllers are used to optimize the performance of HVAC systems and provide continuous monitoring, control and reporting. The eMAC system generally reduces energy consumption by 15% to 20% through the use of intelligent operating algorithms which learn the rate of cooling or heating required to achieve the desired space temperature while optimizing compressor run time within these limits. The eMAC also monitors up to 126 points of system operation. This system information is captured on a real time basis and transmitted via wireless two-way communication to MPG s central eMAC servers where it is analyzed to ensure maximum system reliability. If the system detects a problem in an HVAC unit, the problem can be diagnosed and the appropriate action can be taken to minimize or avoid system downtime. MPG s customers can also remotely control their HVAC equipment and view historical operating information via the Internet using a standard Internet browser.

Effective June 30, 2006 we acquired Parke P.A.N.D.A. Corporation (Parke), an energy services provider specializing in the design, engineering and installation of energy efficient lighting upgrades for commercial and industrial users. We believe that the addition of Parke will broaden the product offering to our existing customers and allow us to sell our technology products to its current and former customers.

Effective September 27, 2006, we acquired Kapadia Consulting, Inc. (Kapadia), an energy engineering firm that specializes in energy conservation and energy management. We believe that the acquisition of Kapadia will further expand our product offering, increase our customer base and brings valuable energy engineering experience to the Company.

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Our EnergySaver product line is manufactured at our facilities in Elk Grove Village, Illinois, with manufacturing and assembly scaled to order demand. Maximum Performance Group has offices in New York City and San Diego, California, but contracts for the manufacturing of its hardware products with third party contract manufacturers. Parke is headquartered in Glendora, California and has offices in Danville and Carmel, California. Kapadia is headquartered in Peekskill, New York and has an office in Ventura, California.

Giorgio Reverberi has patented in the United States and Italy certain technologies underlying the EnergySaver products. We have entered into a license agreement and series of agreements with Mr. Reverberi and our founder, Mr. Joseph Marino, relating to the license of the EnergySaver technology in the United States and certain other markets. We own all the patents and trademarks related to MPG's products.

Due to changes in lighting technology we expect revenue from the EnergySaver system to decline in future periods and the eMAC line of HVAC controllers to become our leading line of technology products.

We are pursuing a multi-channel marketing and sales distribution strategy to bring our energy saving products to market. Our multi-channel approach includes the use of a direct sales force and independent manufacturers representatives and dealers.

Recent Events

AMEX Delisting

On April 21, 2006, we received a notice from the American Stock Exchange informing us that after a review of our most recent Annual Report on Form 10-K it determined that we were not in compliance with Section 1003(a)(iii) of its Company Guide. Section 1003(a)(iii) requires a listed company to maintain shareholder equity of at least \$6 million if it has sustained losses from continuing operations and/or new losses in its most recent five fiscal years. On May 22, 2006, we notified the American Stock Exchange of our decision to delist our common stock from the Exchange. On June 12, 2006, our common stock began trading on the OTC Bulletin Board under the ticker symbol ELCC.

Reverse Stock Split

In June, 2006, our board of directors approved and we announced a 1 for 15 reverse split of our common stock, effective on June 15, 2006. Our common stock has been trading on this basis since that date. We took such action in order to permit us to raise additional capital, which we did on June 29, 2006. We did not ask our stockholders to approve the Reverse Split in June because we did not believe it was necessary based on the advice of our counsel. Thereafter, on June 29, 2006, we closed four transactions (the June 29 Transactions) and acquired Kapadia Consulting, Inc., which transactions are described under The PIPE Transaction, Acquisition of Parke P.A.N.D.A Corporation, and Acquisition of Kapadia Consulting, Inc. in the paragraphs below. All of the June 29 Transactions, and the acquisition of Kapadia Consulting, Inc., were premised on the belief of the parties thereto that the 1 for 15 reverse split was completed on June 15, 2006, and all of these transactions valued our common stock at a price of \$1 per share. Subsequently, the staff of the Securities and Exchange Commission requested advice as to whether our Certificate of Incorporation should have been amended (which requires stockholder approval) under Delaware law to effect the reverse split. We then engaged Delaware counsel to assist us. We were advised by Delaware counsel that, although our board had approved the reverse split, in the view of Delaware counsel the reverse split would not be effective until it had been set forth in an amendment to our Certificate of Incorporation approved by our stockholders and filed with the Delaware Secretary of State. We completed such actions on January 23, 2007 and the reverse split became effective on that date. As a result of the reverse split, the number of outstanding shares of our common stock was reduced from 97,663,927 shares outstanding immediately prior to filing of the amendment to 6,510,925 shares of common stock immediately after filing the amendment.

However, because the reverse split became effective January 23, 2007 and not on June 15, 2006, the shares of common stock that were issued in the June 29 Transactions and the acquisition of Kapadia Consulting, Inc. were reduced on a 1 for 15 basis when the amendment was filed. Since both we and the other parties to

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those transactions intended that the shares we issued were post-reverse split shares, following the filing of the amendment and the reverse split becoming effective, we offered to each of the recipients of shares in the June 29 Transactions and the Kapadia acquisition additional shares of common stock so that each would have the specific number of post-reverse split shares of which were intended in those transactions, in satisfaction of any claims such recipients might have in respect of such matter. All of them accepted such offer and we thereupon issued a total of 43,275,686 shares of common stock to such parties, bringing our total outstanding shares of common stock to 50,316,902. The table below shows, for each such party, the number of shares acquired in the June 29 Transactions and the Kapadia acquisition, the effect of the reverse split on those shares, and the number of "catch up" shares which we have issued to each such party in satisfaction of any claims they might otherwise have:

	No. Of Shares Actually Acquired	Number Of Shares Held After Amendment and Reverse-Split	Number Of "Catch Up" Shares Issued
Stockholder			
David R. Asplund	1,854,200	123,613	1,730,587
Augustine Fund LP	2,628,000	175,200	2,452,800
Chris Capps	25,000	1,667	23,333
Cinergy Ventures II, LLC	3,002,293	200,153	2,802,140
John Donohue	294,000	19,600	274,400
Gregory Ekizian	400,000	26,667	373,333
Robert L. Gipson	2,363,600	157,573	2,206,027
Thomas Gipson	1,500,000	100,000	1,400,000
Julia Gluck	100,000	6,667	93,333
John Thomas Hurvis Revocable Trust	540,053	36,004	504,049
Rebecca Kiphart	200,000	13,333	186,667
Richard P. Kiphart	14,603,400	973,560	13,629,840
Laurus Master Fund Ltd	1,343,461	89,564	1,253,897
Leaf Mountain	3,315,900	221,060	3,094,840
Martin Mellish	250,000	16,667	233,333
Nikolaos D. Monoyios	2,363,600	157,573	2,206,027
Nettlestone Enterprise Ltd.	1,500,000	100,000	1,400,000
SF Capital Partners	4,237,600	282,507	3,955,093
David W. Valentine	345,700	23,047	322,653
The Parke Family Trust	5,000,000	333,333	4,666,667
Pradeep Kapadia	500,000	33,333	466,667
Total	46,366,807	3,091,121	43,275,686

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On June 29, 2006, we entered into a securities purchase agreement with a group of 17 investors (the PIPE Investors) pursuant to which we issued to such purchasers an aggregate of 17,875,000 shares of our common stock at a price of \$1.00 per share for total gross proceeds of \$17,875,000 (the PIPE Transaction). Ten of the PIPE Investors, who purchased an aggregate of 13,900,000 shares of common stock in the PIPE Transaction, were holders of Series E Convertible Preferred stock (Series E Preferred), including three members of our board of directors (who, together with members of their families, purchased 7,700,000 shares of common stock in the PIPE Transaction).

Prior to the PIPE Transaction, the Series E Preferred stock was convertible into our common stock at \$6.67 per share, after adjustment for the reverse split. However, the Series E Preferred contained anti-dilution provisions which required automatic reduction of the conversion price of the Series E Preferred if we issued stock or securities convertible into common stock at a price below the Series E Preferred conversion price then in effect to the price of the new issuance. Because we issued common stock in the PIPE Transaction at \$1.00 per share, the Series E Preferred conversion price was automatically reduced to \$1.00 per share.

In connection with the PIPE Transaction, the holders of the Series E Preferred agreed to convert all outstanding shares of Series E Preferred into common stock at the new conversion price on the closing of the PIPE Transaction (the Series E Conversion). As a result, we issued 21,648,346 shares of our common stock upon the conversion of the Series E Preferred on June 29, 2006.

Prior to closing the PIPE Transaction, we owed Laurus Master Fund, Ltd. (Laurus), \$943,455 under a revolving convertible loan, \$5,038,030 under two convertible term loans, \$54,726 in accrued interest and fees and \$161,096 in liquidated damages for failing to register common stock with the SEC for resale by Laurus as required in connection with the \$5 million term loan which we borrowed from Laurus in November 2005. In connection with the PIPE Transaction Laurus agreed to convert the outstanding balance on the revolving convertible loan and related accrued interest into common stock at \$1.00 per share and accept payment of the liquidated damages in shares of our common stock, again valued at \$1.00 per share. We used \$5,601,418 of the proceeds from the PIPE Transaction to repay the convertible term loans and pay related accrued interest and fees and prepayment penalties thereon, and, we issued 1,111,961 shares of common stock to Laurus upon conversion of the revolving convertible loan and to pay the accrued interest and the liquidated damages. Laurus also agreed, in exchange for 231,500 shares of our common stock, to terminate the requirement that we pay a portion of the cash flows generated by our two Virtual Negawatt Power Plan (or VNPP) projects as required by the \$5 million term loan of November 2005.

We also used \$2,720,000 of the proceeds of the PIPE Transaction to fund the cash portion of the purchase price of the Parke acquisition (described below) and \$400,000 of such proceeds to repay Parke's revolving line of credit. The remaining proceeds will be used for general corporate purposes. We may also use a portion of the proceeds to selectively acquire businesses, products and/or technologies that are complementary to our own.

A provision of the PIPE Transaction required us to file and have declared effective by November 3, 2006, a registration statement registering the shares issued as part of the PIPE Transaction. To the extent that we failed to have the registration statement declared effective by this date, we are required to pay penalties to the PIPE investors at the rate of 1% per month of the purchase price paid by the investors. Largely as a result of the questions regarding the need to amend our Certificate of Incorporation to effect the June 15, 2006 reverse split of our stock, we were not able to have the registration statement declared effective before the November 3, 2006 deadline. All of the investors in the PIPE Transaction agreed to accept shares of our common stock, valued at \$1.00 per share, as payment of this registration penalty. As a result, on January 24, 2007 and February 2, 2007 we issued a total of 530,291 shares of common stock to these PIPE investors in satisfaction of the penalties owed through January 31, 2007. We hope that this registration statement will be declared effective some time during February. In the meantime we continue to accrue penalties at the rate of approximately

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\$178,750 per month, which we expect will be satisfied through the issuance of additional shares of common stock.

Acquisition of Parke P.A.N.D.A. Corporation

On June 29, 2006, we completed the previously announced acquisition of Parke for consideration consisting of \$2.72 million in cash and \$5 million of our common stock (5,000,000 shares valued at \$1.00 per share). The acquisition was effective as of June 30, 2006. As part of the acquisition, we assumed debt of approximately \$446,000, \$400,000 of which we repaid upon closing. Parke was owned by The Parke Family Trust, whose trustees are Daniel Parke, one of our directors, and his wife Michelle Parke.

Parke (now named Parke Industries, LLC) is an energy services provider specializing in the design, engineering and installation of energy efficient lighting upgrades for commercial and industrial users. Parke has 30 employees and is headquartered in Glendora, California, with offices in Danville and Carmel, California.

Dan Parke, the president and founder of Parke, continues to serve as the President of Parke and, as of June 30, 2006, also assumed the position of President and Chief Operating Officer of Lime Energy.

Name Change to Lime Energy

On September 13, 2006, we changed our name to Lime Energy Co. by merging with a wholly owned subsidiary set up solely for the purpose of effecting the name change. We changed our name because we felt the Lime Energy brand reflects the image that we wish to convey to our customers, shareholders and the broader electricity and energy efficiency industry. Lime is an acronym for Less Is More Efficient, which we feel more accurately describes the green energy efficiency technologies offered by Lime Energy and further positions us as a unique player in the energy market. Because of the change of our name, on September 22, 2006 our ticker symbol changed to LMEC.

Special Committee of the Board of Directors

Due to potential conflicts of interest resulting from (i) certain members of our board of directors beneficially owning Series E shares and being asked to purchase shares of common stock in the PIPE Transaction and concurrently convert their Series E shares into our common stock, and (ii) Dan Parke's ownership interest in Parke P.A.N.D.A. Corporation, our board of directors established a special committee comprised of disinterested, independent directors to review, negotiate and approve the acquisition of Parke and the PIPE Transaction. The special committee retained Rittenhouse Capital Partners, LLC (Rittenhouse) to act as its financial advisor, and legal counsel to assist it in its review of these transactions. Rittenhouse reviewed the Parke acquisition and delivered to the special committee an opinion to the effect that the purchase price paid for Parke was fair to us from a financial point of view. It also provided information, advice and analysis to assist the committee in its review of the structure and pricing of the PIPE Transaction. Legal counsel assisted the special committee in its review of these transactions and advised the committee on its duties and responsibilities. After considering all of the information it had gathered, the committee concluded that these transactions were in the best interests of the Company and its stockholders, and approved the Parke acquisition and the PIPE Transaction.

Acquisition of Kapadia Consulting, Inc.

On September 26, 2006, we acquired Kapadia Consulting, Inc., effective September 27, 2006, for consideration consisting of \$1.25 million in cash and 500,000 shares of Lime Energy common stock. Kapadia, which we have renamed Kapadia Energy Services, Inc., is an engineering firm that specializes in energy management consulting and energy efficient lighting upgrades for commercial and industrial users. Kapadia has seven employees, is headquartered in Peekskill, New York and has an office in Ventura, California.

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Amendment to Certificate of Incorporation

As described under Reverse Stock Split above, on January 23, 2007 we filed an amendment to our Certificate of Incorporation to make effective a 1 for 15 reverse split of our common stock on that date. The amendment made no other changes to our capital stock or to any other provisions of our Certificate of Incorporation.

New Director

Effective January 26, 2007, Joseph F. Desmond joined our Board of Directors. See Directors, Executive Officers, Promoters and Control Persons for additional information regarding Mr. Desmond.

The Restructured Company

After effecting the PIPE Transaction and the Parke and Kapadia acquisitions we have the following:

Cash of approximately \$7 million (as of September 30, 2006);

No debt, except for the mortgage on our headquarters in the amount of \$529,000, a \$150,000 demand note owed to one of our stockholders, and various auto loans and capitalized leases totaling approximately \$53,000 (all balances as of September 30, 2006);

One class of outstanding equity (common stock), with no outstanding preferred stock or convertible debt;

Approximately 78 employees;

Eight sales offices located in New York, Chicago, Salt Lake City, San Diego, Glendora, California, Danville, California, Carmel, California and Ventura, California;

Proprietary technology that controls and reduces energy consumed in commercial lighting and HVAC applications;

A business that designs, engineers and installs energy efficient lighting upgrades for commercial and industrial users; and

A largely revamped board of directors (5 of the 8 directors have joined the Board since October 2005) and senior management team (our CEO and our President are both new to the Company in 2006).

We believe that as a result of these recently implemented changes we will be better positioned to take advantage of the growth in demand for energy efficiency products and services, hopefully leading to improved profitability and cash flow. We also believe that there are opportunities for future acquisitions that could broaden our product line, increase our geographic reach and lead us to new markets for our products, all of which we hope would also contribute to increased sales and to profitability.

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The Offering

Securities Offered.	The selling stockholders are offering from time to time up to 40,753,588 shares of our common stock.
Terms of the Offering.	We have agreed to use our best efforts to keep the registration statement of which this prospectus is a part effective until all the shares of the selling stockholders registered under the registration statement have been sold or may be sold without volume restrictions pursuant to Rule 144(k) under the Securities Act.
Use of Proceeds.	We will not receive any of the proceeds from any sale of the shares offered by this prospectus by the selling stockholders. To the extent a selling stockholder exercises its warrant for cash, we intend to use the proceeds we receive from such exercise(s) for general corporate purposes.
OTC Bulletin Board Symbol	LMEC

RISK FACTORS

The following disclosure of risk factors includes all material risks known to us at this time. Additional risks we are not presently aware of or that we currently believe are immaterial may prove to impair our business and financial performance. Our business could be harmed by any of these risks, whether stated or unstated. We operate in a continually changing business environment and may as a result enter into new businesses and product lines. We cannot predict new risk factors that may arise in the future, and we cannot assess the impact, if any, of these new risk factors on our businesses or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those projected in any forward-looking statements. Accordingly, you should not rely on forward-looking statements as a prediction of actual results. In addition, our estimates of future operating results are based on our current complement of businesses, which is subject to change as we continue to assess and refine our business strategy. If any of the following risks actually occur, our business, results of operations, and financial condition could be adversely affected in a material manner and could negatively affect the value of your investment.

Risks Related to Our Business

We have a limited operating history upon which to evaluate our potential for future success.

We were formed in December 1997. To date, we have generated limited revenues from the sale of our products and do not expect to generate significant revenues until we sell a significantly greater amount of our products and services. Accordingly, we have only a limited operating history upon which you can base an evaluation of our business and prospects. Moreover, we have acquired five businesses over the past six years and subsequently sold two of them because of changes in our overall strategy. The likelihood of our success must be considered in light of the risks and uncertainties frequently encountered by early stage companies like ours in an evolving market. If we are unsuccessful in addressing these risks and uncertainties, our business will be materially harmed or in the worst case, could fail.

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

We have experienced operating losses and negative cash flow from operations since our inception and we currently have an accumulated deficit. These factors raise substantial doubt about our ability to continue as a going concern. Our ability to continue as a going concern is ultimately dependent on our ability to increase sales to a level that will allow us to operate profitably and sustain positive operating cash flows. Although we are continuing our efforts to improve profitability through expansion of our business in both current and new markets, we must overcome significant manufacturing hurdles, including gearing up to produce large quantities of product or arranging to outsource the production of our products, and marketing hurdles, including gaining market acceptance, in order to sell large quantities of our products and services. In addition, we may be required to reduce the prices of our products 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 (1) for general corporate purposes, including working capital, marketing, recruiting and hiring additional personnel; and (2) for research and development. To the extent that our revenues do not increase as quickly as these costs and expenditures, our results of operations and liquidity will be materially adversely affected. If we experience slower than anticipated revenue growth or if our operating expenses exceed our expectations, we may not achieve profitability. Even if we achieve profitability in the future, we may not be able to sustain it.

Our auditors have modified their opinion to our audited financial statements for the year ended December 31, 2005 to include an emphasis paragraph, stating that our continuing losses and negative cash flow from operations raise substantial doubt about our ability to continue as a going concern. We have recently raised gross proceeds of \$17,875,000 through the issuance of shares of our common stock, which has improved our current liquidity. We have also recently sold a subsidiary and acquired Parke P.A.N.D.A. Corporation (now named Parke Industries, LLC) and Kapadia Consulting, Inc. (now named Kapadia Energy Services, Inc.) and we are in the process of making other changes to our business which we hope will lead to an improvement in our cash flow in future periods. Whether these changes will lead to us becoming cash flow positive remains to be seen.

Our independent registered public accountants have issued a going concern opinion raising doubt about our financial viability.

As a result of our continuing losses and negative cash flows, our independent registered public accounting firm, BDO Seidman, LLP, issued a going concern opinion in connection with their audit of our financial statements for the year ended December 31, 2005. This opinion expressed substantial doubt as to our ability to continue as a going concern. The going concern opinion could have an adverse impact on our ability to execute our business plan, result in the reluctance on the part of certain suppliers to do business with us, result in the inability to obtain new business due to potential customers' concern about our ability to deliver products or services, or adversely affect our ability to raise additional debt or equity capital.

Failure to replace a significant customer could materially and adversely affect our results of operations and financial condition.

We have historically derived a significant portion of our annual revenue from a limited number of customers. Seldom has any one customer represented 10% or more of our revenues for more than one year in a row. This requires that we continually replace major customers, whose needs we have satisfied, with one or more new customers. The failure to replace a major customer could have a significant negative effect on our results of operations and financial condition.

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A decrease in electric retail rates could lessen demand for our products.

Our principal products, our EnergySaver and eMAC products and our lighting retro-fit services and energy engineering services, have the greatest profit potential in areas where commercial electric rates are relatively high. However, retail electric rates for commercial establishments in the United States may not remain at their current levels. Due to a potential overbuilding of power generating stations in certain regions of the United States, wholesale power prices may decrease in the future. Because the price of commercial retail electric power is largely attributed to the wholesale cost of power, it is reasonable to expect that commercial retail rates may decrease as well. In addition, much of the wholesale cost of power is directly related to the price of certain fuels, such as natural gas, oil and coal. If the prices of those fuels decrease, the prices of the wholesale cost of power may also decrease. This could result in lower electric retail rates and reduced demand for our energy saving products and services.

We have a license to use certain patents and our ability to sell our products may be adversely impacted if the license expires or is terminated.

We have entered into a license agreement with Messrs. Giorgio Reverberi and Joseph Marino with regard to the core technology used in our EnergySaver product. Mr. Reverberi holds a U.S. patent and has applied for several patents in other countries. Pursuant to the terms of the license, we have been granted the exclusive right to manufacture and sell products containing the load reduction technology claimed under Mr. Reverberi's U.S. patent or any other related patent held by him in the U.S., the remainder of North America, parts of South America and parts of Africa. However, the exclusive rights that we received may not have any value in territories where Mr. Reverberi does not have or does not obtain protectable rights. The term of the license expires when the last of these patents expires. We expect that these patents will expire around November 2017. The license agreement may be terminated if we materially breach its terms and fail to cure the breach within 180 days after we are notified of the breach. If our license is terminated it could impact our ability to manufacture, sell or otherwise commercialize EnergySaver products in those countries where Mr. Reverberi holds valid patents relating to our products, including the United States.

If we are not able to protect our intellectual property rights against infringement, or if others obtain intellectual property rights relating to energy management technology, we could lose our competitive advantage in the energy management market.

We regard our intellectual property rights, such as patents, licenses of patents, trademarks, copyrights and trade secrets, as important to our success. Although we have entered into confidentiality and rights to inventions agreements with our employees and consultants, the steps we have taken to protect our intellectual property rights may not be adequate. Third parties may infringe or misappropriate our intellectual property rights or we may not be able to detect unauthorized use and take appropriate steps to enforce our rights. Failure to take appropriate protective steps could materially adversely affect any competitive advantage we may have in the energy management market. Furthermore, our patents and our license to use Mr. Reverberi's patents may have little or no value to us if our patents or Mr. Reverberi's patents are not valid. In addition, patents held by third parties may limit our ability to manufacture, sell or otherwise commercialize products and could result in the assertion of claims of patent infringement against us. If that were to happen, we could try to modify our products to be non-infringing, but we might not be successful or such modifications might not avoid infringing on the intellectual property rights of third parties.

Claims of patent infringement against us, regardless of merit, could result in the expenditure of significant financial and managerial resources by us. We could be forced to seek to enter into license agreements with third parties (other than Mr. Reverberi) to resolve claims of infringement by our products of the intellectual property rights of third parties. Such licenses may not be available on acceptable terms or at all. The failure to obtain such licenses on acceptable terms could have a negative effect on our business.

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David Asplund, our new Chief Executive Officer has limited experience operating a Company such as ours and no direct industry experience.

Mr. Asplund, who has been on our Board since June 2002, has a degree in mechanical engineering and has had a successful career in the financial industry. Mr. Asplund founded an investment banking firm in 1999 and operated the firm as its president for six years, but Mr. Asplund has not operated a manufacturing company and he has limited industry experience. His past experience does not assure that he will be successful in his new role as CEO of Lime Energy.

If we are unable to achieve or manage our growth, it will adversely affect our business, the quality of our products and services, and our ability to attract and retain key personnel.

If we succeed in growing our sales as we need to do, we will be subject to the risks inherent in the expansion and growth of a business enterprise. Growth in our business will place a strain on our operational and administrative resources and increase the level of responsibility for our existing and new management personnel. To manage our growth effectively, we will need to:

 further develop and improve our operating, information, accounting, financial and other internal systems and controls on a timely basis;

 improve our business development, marketing and sales capabilities; and

 expand, train, motivate and manage our employee base.

Our systems currently in place may not be adequate if we grow and may need to be modified and enhanced. The skills of management currently in place may not be adequate if we experience significant growth.

If our management fails to properly identify companies to acquire and to effectively negotiate the terms of these acquisition transactions, our growth may be impaired.

As part of our growth strategy, we intend to seek to acquire companies with complementary technologies, products and/or services. Our management, including our board of directors, will have discretion in identifying and selecting companies to be acquired by us and in structuring and negotiating these acquisitions. In general, our common stockholders may not have the opportunity to approve these acquisitions. In addition, in making acquisition decisions, we will rely, in part, on financial projections developed by our management and the management of potential target companies. These projections will be based on assumptions and subjective judgments. The actual operating results of any acquired company or the combination of us and an acquired company may fall significantly short of projections.

We may be unable to acquire companies that we identify as targets for various reasons, including:

 our inability to interest such companies in a proposed transaction;

 our inability to agree on the terms of an acquisition;

 incompatibility between our management and management of a target company; and

 our inability to obtain the approval of the holders of our common stock, if required.

If we cannot consummate acquisitions on a timely basis or agree on terms at all, or if we cannot acquire companies with complementary technologies, products and/or services on terms acceptable to us, our future growth may be impaired.

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Our growth may be impaired and our current business may suffer if we do not successfully address risks associated with acquisitions.

Since January 1, 2000, we have acquired five companies; Switchboard Apparatus Inc., Great Lakes Controlled Energy Corporation, Maximum Performance Group, Inc., Parke P.A.N.D.A. Corporation and Kapadia Consulting, Inc., two of which (Switchboard Apparatus and Great Lakes Controlled Energy) we subsequently sold at a loss. Our future growth may depend, in part, upon our ability to successfully identify, acquire and operate other complementary businesses. We may encounter problems associated with such acquisitions, including the following:

difficulties in integrating acquired operations and products with our existing operations and products;

difficulties in meeting operating expectations for acquired businesses;

diversion of management's attention from other business concerns;

adverse impact on earnings of amortization or write-offs of goodwill and other intangible assets relating to acquisitions; and

issuances of equity securities that may be dilutive to existing stockholders to pay for acquisitions.

In addition, often an acquired company's performance is largely dependent on a few key people, particularly in smaller companies. If these key people leave the company, become less focused on the business or less motivated to make the business successful after the acquisition, the performance of the acquired company may suffer.

If our products and services do not achieve or sustain market acceptance, our ability to compete will be adversely affected.

To date, we have not sold our eMAC or EnergySaver product lines in very large quantities and a sufficient market may not develop for them. Significant marketing will be required in order to establish a sufficient market for these products. The technology underlying our products may not become a preferred technology to address the energy management needs of our customers and potential customers. Failure to successfully develop, manufacture and commercialize products on a timely and cost-effective basis will have a material adverse effect on our ability to compete in the energy management market or survive as a business.

Failure to meet customers' expectations or deliver expected technical performance could result in losses and negative publicity.

Customer engagements involve the installation of energy management equipment to help our clients reduce energy/power consumption. We often rely on outside contractors to install our EnergySaver and eMAC products. Any defects in this equipment and/or its installation or any other failure to meet our customers' expectations could result in:

delayed or lost revenues due to adverse customer reaction;

requirements to provide additional products, replacement parts and/or services to a customer at no charge;

negative publicity regarding us and our products, which could adversely affect our ability to attract or retain customers; and

claims for substantial damages against us, regardless of whether we have any responsibility for such failure.

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If sufficient additional funding is not available to us, the commercialization of our products and services and our ability to grow is likely to be hindered.

Our operations have not generated positive cash flow since the inception of the Company in 1997. We have funded our operations through the issuance of common and preferred stock and secured debt. Our ability to continue to operate until our cash flow turns positive may depend on our ability to continue to raise funds through the issuance of equity or debt. If we are not successful in raising additional funds, we might have to significantly scale back or delay our growth plans, or possibly 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 products. If we should have to cease operations altogether, your investment is likely to be lost.

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

We have recently raised additional capital through the issuance of common stock to repay debt, fund an acquisition, grow our product development, manufacturing, marketing and sales activities at the pace that we intend, and to continue to fund operating losses until our cash flow turns positive. We may find it necessary to raise capital again some time in the future. If we determine that we do need to raise additional capital in the future and we are not successful in doing so, we might have to significantly scale back or delay our growth plans, reduce staff and delay planned expenditures on research and development and capital expenditures in order to continue as a going concern. 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 products.

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.

Failure to effectively market our energy management products and services could impair our ability to sell significant quantities of these products and services.

One of the challenges we face in commercializing our energy management products and services is demonstrating the advantages of our products and services over competitive products and services. To do this, we will need to further develop our marketing and sales force. If we do not successfully develop and expand our internal sales force, our ability to generate significant revenues may be harmed.

If we do not successfully compete with others in the very competitive energy management market, we may not achieve profitability.

In the energy management market, we compete with other manufacturers of energy management products that are currently used by our potential customers. Many of these companies have substantially greater financial resources, larger research and development staffs and greater manufacturing and marketing capabilities than we do. Our competitors may provide energy management products at lower prices and/or with superior performance. If we are unable to successfully compete with conventional and new technologies, our business may be materially harmed.

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Product liability claims could result in losses and could divert our management's time and resources.

The manufacture and sale of our products creates a risk of product liability claims. Any product liability claims, with or without merit, could result in costly litigation and reduced sales, cause us to incur significant expenses and divert our management's time, attention and resources. We do have product liability insurance coverage; however, there is no assurance that such insurance is adequate to cover all potential claims. The successful assertion of any such claim against us could materially harm our liquidity and operating results.

Risks Related to this Offering

Due to the current market price of our common stock, in conjunction with the fact that we are a relatively small company with a history of operating losses, the future trading market for our stock may not be active on a consistent basis, which may make it difficult for you to sell your shares.

The trading volume of our stock in the future depends in part on our ability to increase our revenue and reduce or eliminate our operating losses, which should increase the attractiveness of our stock as an investment, thereby leading to a more liquid market for our stock on a consistent basis. If we are unable to achieve these goals, the trading market for our stock may be negatively affected, which may make it difficult for you to sell your shares. In addition, we have recently moved from The American Stock Exchange to the OTC Bulletin Board because we no longer meet AMEX listing criteria. Our move to the OTC Bulletin Board may result in reduced liquidity and increased volatility for our stock. If an active and liquid trading market does not exist for our common stock, you may have difficulty selling your shares.

Due to the move from The American Stock Exchange to the OTC Bulletin Board, holders of our common stock will no longer have certain approval rights available under the AMEX Rules.

The American Stock Exchange has rules which listed companies must comply with. Among other things, the AMEX Rules require shareholder approval as a prerequisite to approving applications to list additional shares to be issued in connection with certain transactions. For example, AMEX Rule 713 requires shareholder approval if a company issues shares equal to or greater than 20% of its currently outstanding shares, if such issuance is at a price below the greater of book or market value of the shares. Although we are subject to the Delaware General Corporation Law, it is less restrictive and does not require stockholder approval of such a transaction. Accordingly, now that our stock is no longer listed on the AMEX, we may issue shares for less than the greater of book or market value and take certain other actions without stockholder approval which we could not have taken without shareholder approval when our common stock was listed on AMEX.

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.

There were 50,316,902 shares of our common stock outstanding as of February 7, 2007, of which the PIPE Investors (a total of 17 investors) and The Parke Family Trust beneficially own in the aggregate approximately 90%. 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

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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 this small group of shareholders could result in increased volatility in our stock price due to the limited number of shares available in the market.

Provisions of our charter and by-laws, in particular our blank check preferred stock, could 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 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.

We do not intend to pay dividends on shares of our common stock in the foreseeable future.

We currently expect to retain our future earnings, if any, for use in the operation and expansion of our business. We do not anticipate paying any cash dividends on shares of our common stock in the foreseeable future.

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, are creating uncertainty for companies such as ours. We are committed to maintaining high standards of corporate governance and public disclosure. As a result, we intend to invest reasonably necessary resources to comply with evolving standards, and this investment may result in increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities, which could harm our business prospects.

USE OF PROCEEDS

We will not receive any of the proceeds from any sale of the shares offered by this prospectus by the selling stockholders. If and when a selling stockholder exercises its common stock warrants, we may receive up to \$3,818,463 from the issuance of shares of common stock to such selling stockholder. The warrants have exercise prices ranging from \$1.00 to \$47.70 per common share. Some of the warrants contain a cashless exercise option, which permits the holder to surrender a portion of the shares issuable upon exercise of the warrant as payment of the exercise price. To the extent the holder of a warrant elects the cashless exercise option, the cash received by us and the number of shares issued upon exercise of such warrant will be reduced. Any cash received as a result of the exercise of any of the warrants will be used by the Company for general corporate purposes.

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PLAN OF DISTRIBUTION

We have agreed to register for public resale shares of our common stock which have been issued to the selling stockholders or may be issued in the future to the selling stockholders upon exercise of the warrants. We have agreed to use our best efforts to keep the registration statement, of which this prospectus is a part, effective until all the shares of the selling stockholders registered hereunder have been sold or may be sold without volume restrictions pursuant to Rule 144(k) under the Securities Act. The aggregate proceeds to the selling stockholders from the sale of shares offered pursuant to this prospectus will be the prices at which such securities are sold, less any commissions. The selling stockholders may choose not to sell any or all of the shares of our common stock offered pursuant to this prospectus.

The selling stockholders may, from time to time, sell all or a portion of the shares of our common stock at fixed prices, at market prices prevailing at the time of sale, at prices related to such market prices or at negotiated prices. The selling stockholders may offer their shares of our common stock at various times in one or more of the following transactions:

on any securities exchange, market or trading facility on which our common stock may be listed at the time of sale;

in an over-the-counter market in which the shares are traded;

through block trades in which the broker or dealer so engaged will attempt to sell the shares as agent, but may purchase and resell a portion of the block as principal to facilitate the transaction;

through purchases by a broker or dealer as principal and resale by such broker or dealer for its account pursuant to this prospectus;

in ordinary brokerage transactions and transactions in which the broker solicits purchasers;

through options, swaps or derivatives;

in privately negotiated transactions;

in transactions to cover short sales;

through a combination of any such methods of sale; and

through any other method permitted by law.

The selling stockholders may also sell their shares of our common stock in accordance with Rule 144 under the Securities Act, rather than pursuant to this prospectus. The selling stockholders shall have the sole and absolute discretion not to accept any purchase offer or make any sale of shares if they deem the purchase price to be unsatisfactory at any particular time.

The selling stockholders may sell their shares of our common stock directly to purchasers or may use brokers, dealers, underwriters or agents to sell such shares. In effecting sales, brokers and dealers engaged by the selling stockholders may arrange for other brokers or dealers to participate. Brokers or dealers may receive commissions, discounts or concessions from a selling stockholder or, if any such broker-dealer acts as agent for the purchaser of such shares, from a purchaser, in amounts to be negotiated. Such compensation may, but is not expected to, exceed that which is customary for the types of transactions involved. Broker-dealers may agree with a selling stockholder to sell a specified number of such shares at a stipulated price per share, and, to the extent a broker-dealer is unable to do so acting as agent for a selling stockholder, to purchase as principal any unsold shares at the price required to fulfill the broker-dealer commitment to the selling stockholder. Broker-dealers who acquire shares as principal may thereafter resell such shares from time to time in transactions which may involve block transactions and sales to and

through other broker-dealers, including transactions of the nature described above, in the over-the-counter market or otherwise, at prices and on terms

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then prevailing at the time of sale, at prices then related to the then-current market price or in negotiated transactions. In connection with such resales, broker-dealers may pay to or receive from the purchasers of such shares commissions as described above.

From time to time the selling stockholders may engage in short sales (i.e. the sale of our stock when the seller does not own our stock by borrowing shares from someone who does), short sales against the box (i.e. the sale of shares borrowed from another shareholder while continuing to hold an equivalent number of shares), puts, calls and other hedging transactions in our securities, and may sell and deliver their shares of our common stock in connection with such transactions or in settlement of securities loans. These transactions may be entered into with broker-dealers or other financial institutions. In addition, from time to time a selling stockholder may pledge its shares pursuant to the margin provisions of its customer agreement with its broker-dealer or secure loans from financial institutions. Upon default by a selling stockholder, the broker-dealer or financial institution may offer and sell such pledged shares from time to time.

The selling stockholders and any broker-dealer participating in the distribution of the shares of common stock may be deemed to be underwriters within the meaning of the Securities Act, and any commissions paid, or any discounts or concessions allowed to any such broker-dealer may be deemed to be underwriting commissions or discounts under the Securities Act. At the time a particular offering of the shares of common stock is made, a prospectus supplement, if required, will be distributed which will set forth the aggregate amount of shares of common stock being offered and the terms of the offering, including the name or names of any broker-dealers or agents, any discounts, commissions and other terms constituting compensation from the selling stockholders and any discounts, commissions or concessions allowed or reallocated or paid to broker-dealers.

Under the securities laws of some states, the shares of common stock may be sold in such states only through registered or licensed brokers or dealers. In addition, in most states the shares of common stock may not be sold unless such shares have been registered or qualified for sale in such state or an exemption from registration or qualification is available and is complied with.

There can be no assurance that any selling stockholders will sell any or all of the shares of common stock registered pursuant to the registration statement of which this prospectus forms a part.

The selling stockholders and any other person participating in such distribution will be subject to applicable provisions of the Exchange Act and the rules and regulations thereunder, including, without limitation, Regulation M of the Exchange Act, which may limit the timing of purchases and sales of any of the shares of common stock by the selling stockholders and any other participating person.

Regulation M may also restrict the ability of any person engaged in the distribution of the shares of common stock to engage in market-making activities with respect to the shares of common stock. All of the foregoing may affect the marketability of the shares of common stock and the ability of any person or entity to engage in market-making activities with respect to the shares of common stock.

A portion of the shares of common stock which are being registered hereunder may be issued upon exercise of warrants which we have issued to certain of the selling stockholders. This prospectus does not cover the sale or transfer of any such warrants. If a selling stockholder transfers its warrant prior to exercise thereof, the transferee(s) may not sell the shares of common stock issuable upon exercise of such warrant under the terms of this prospectus unless we first amend or supplement this prospectus to cover such shares and such seller.

We are required to pay all fees and expenses incident to the registration of the shares of our common stock offered hereby (other than broker-dealer discounts and commissions) which we estimate to be \$104,679 in total, including, without limitation, Securities and Exchange Commission filing fees, expenses of compliance with state securities or blue sky laws, legal and accounting fees and transfer agent fees relating to sales pursuant to this prospectus; provided, however, that the selling stockholders will pay all underwriting discounts

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and selling commissions, if any. We have agreed to indemnify the selling stockholders against certain losses, claims, damages and liabilities, including liabilities under the Securities Act of 1933, as amended.

Once sold under the registration statement of which this prospectus forms a part, the shares of common stock will be freely tradable in the hands of persons other than our affiliates.

LEGAL PROCEEDINGS

From time to time, the Company has been a party to pending or threatened legal proceedings and arbitrations that are routine and incidental to its business. Based upon information presently available, and in light of legal and other defenses available to the Company, management does not consider the liability from any threatened or pending litigation to be material to the Company.

DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS

The table below shows certain information about our directors, executive officers and significant employees:

Name	Age	Principal Positions
David R. Asplund	48	Chief Executive Officer and Director
Gregory T. Barnum	51	Director (1)
William R. Carey, Jr.	59	Director (1)(3)
Joseph F. Desmond	42	Director
Richard P. Kiphart	65	Director (2)(3)
Jeffrey R. Mistarz	48	Executive Vice President, Chief Financial Officer, Treasurer and Secretary
Daniel W. Parke	51	President, Chief Operating Officer, President Parke Industries and Director
Gerald A. Pientka	51	Director (2)(3)
Leonard Pisano	44	Executive Vice President, President of Maximum Performance Group
David W. Valentine	37	Director (1)(2)

(1) Member of our Audit Committee.

(2) Member of our Compensation Committee.

- (3) Member of our
Governance and
Nominating
Committee.

Our Board of Directors is currently authorized for a membership of twelve directors. As of February 7, 2007, our Board of Directors had four vacancies.

David R. Asplund has been one of our directors since June 2002 and has been our chief executive officer since January 2006. Mr. Asplund has a degree in mechanical engineering from the University of Minnesota. Prior to becoming CEO of Lime Energy, Mr. Asplund was president of Delano Group Securities, LLC, an investment banking firm in Chicago, Illinois, which he founded in 1999. Mr. Asplund is also serves on the board of Agenet, Inc.

Gregory T. Barnum has been one of our directors since March 2006. Mr. Barnum is currently the vice president of finance and chief financial officer of Datalink Corporation, an information storage architect. Prior to joining Datalink in March 2006, Mr. Barnum was the vice president of finance, chief financial officer and corporate secretary of Computer Network Technology Corporation. From September 1992 to July 1997, Mr. Barnum served as senior vice president of finance and administration, chief financial officer and corporate

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secretary at Tricord Systems, Inc., a manufacturer of enterprise servers. From May 1988 to September 1992, Mr. Barnum served as the executive vice president, finance, chief financial officer, treasurer and corporate secretary for Cray Computer Corporation, a development stage company engaged in the design of supercomputers. Prior to that time, Mr. Barnum served in various accounting and financial management capacities for Cray Research, Inc., a manufacturer of supercomputers. Mr. Barnum is a Certified Public Accountant and a member of the American Institute of Certified Public Accountants.

William R. (Max) Carey has been one of our directors since March 2006. Mr. Carey is the chairman and founder of Corporate Resource Development, a sales and marketing consulting firm he founded in 1981. He is also a managing director of Entrepreneur Equity Corporation, an insurance broker that creates specialty products for middle market companies. Mr. Carey also serves on the boards of Outback Steakhouse Inc., Kforce, Inc., Crosswalk.com and J.B. Hanauer & Co.

Joseph F. Desmond has been one of our directors since January 2007. Mr. Desmond is the Senior Vice President, External Affairs for NorthernStar Natural Gas, a developer of liquefied natural gas import terminals. From May 2005 until November 2006, Mr. Desmond served as the Chairman of the California Energy Commission. From May 2006 to November 2006 Mr. Desmond also served as the Under Secretary for Energy Affairs in the California Resources Agency. Prior to his public service for the State of California, Mr. Desmond served as President and Chief Executive Officer of Infotility, Inc., an energy consulting and software development firm based in Boulder, Colorado. From 1997 to 2000, Mr. Desmond was President and Chief Executive Officer of Electronic Lighting, Inc., a manufacturer of controllable lighting systems, and from 1991 to 1997 he was with Parke Industries, where he served as vice president.

Richard P. Kiphart has been one of our directors since January 2006, when he also became chairman of our board of directors. Mr. Kiphart is the head of the Corporate Finance Department and a Principal of William Blair & Company Investment firm. In addition, Mr. Kiphart currently serves as a member of the board of directors of First Data Corp., and previously served on the Concord EFS board of directors from 1997 until 2004 and was chairman of the Concord board of directors from February 2003 until March 2004. Mr. Kiphart is also currently a director of SAFLINK Corporation, Advanced Biotherapy, Inc. and Nature Vision, Inc. In addition he is the former chairman of the Merit Music School, is the president and chief executive officer of the Lyric Opera of Chicago, and the vice chairman of the Erikson Institute. He also serves on the board of DATA (Debt AIDS Trade Africa). Mr. Kiphart is the father in-law of David Valentine, one of our directors.

Jeffrey R. Mistarz has been our chief financial officer since January 2000, our treasurer since October 2000, an executive vice president since November 2002 and our assistant secretary/secretary since February 2003. From January 1994 until joining us, Mr. Mistarz served as chief financial officer for Nucon Corporation, a privately held manufacturer of material handling products and systems, responsible for all areas of finance and accounting, managing capital and stockholder relations. Prior to joining Nucon, Mr. Mistarz was with First Chicago Corporation (now JPMorgan Chase & Co.) for 12 years where he held several positions in corporate lending, investment banking and credit strategy.

Daniel W. Parke has been our president and chief operating officer since we acquired Parke P.A.N.D.A. Corporation, which he owned and served as its president from its founding in 2001. In addition to serving as our president and chief operating officer, Mr. Parke continues to serve as the president of Parke, which is now named Parke Industries LLC. Mr. Parke was previously a founder of Parke Industries, Inc., an energy solutions provider which was acquired in February 1998 by Strategic Resource Solutions, an unregulated subsidiary of Carolina Power & Light.

Independent Directors

Of the eight directors currently serving on the Board, the Board has determined that each of Messrs. Barnum, Carey, Desmond, Kiphart, Pientka and Valentine are independent directors as defined in Section 121A of The American Stock Exchange Listing Standards.

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Gerald A. Pientka has been one of our directors since May 2000. Mr. Pientka is currently, and has been since February 2006 the executive vice president of development for First Industrial Realty Trust, Inc. From September 2003 to February 2006 he was the founder and principal of Verus Partners, a real estate development company located in Chicago, Illinois. Prior to this, from May 1999 through March 2003, Mr. Pientka was president of Higgins Development Partners, LLC (the successor to Walsh, Higgins & Company), a national real estate development company controlled by the Pritzker family interests. From May 1992 until May 1999, Mr. Pientka served as president of Walsh, Higgins & Company. Mr. Pientka is also a member of Leaf Mountain Company, LLC. Mr. Pientka is also board president of Christopher House, a Chicago-based social services agency.

Leonard Pisano has been our executive vice president of sales since June 7, 2006, prior to this, from May 3, 2005, the date we acquired Maximum Performance Group, Inc., he served as our chief operating officer. He is also Maximum Performance Group's president and has been from its founding in February 2003. Prior to that, Mr. Pisano founded Maximum Energy Services in early 2001 and served as its President until it merged with Pentech Solutions to form Maximum Performance Group in February 2003. During his career, Mr. Pisano has held various senior management positions at companies within the energy services sector, including Parke Industries Inc. and SRS, a division of Carolina Power and Light. Prior to entering the energy services sector, Mr. Pisano spent ten years in facilities management at New York University, leaving NYU in 1996 when he was Director of Facilities.

David W. Valentine has been one of our directors since May 2004. Mr. Valentine is currently a senior investment professional of a private investment firm. Prior to taking his current position, Mr. Valentine was the Global Head of Debt Private Placements at UBS Investment Bank where he had been a Director of Leveraged Finance. Before joining UBS, Mr. Valentine held various investment banking positions at Nesbitt Burns Securities Inc. and ABN Amro Chicago Corporation. Mr. Valentine is the son-in-law of Richard Kiphart, our chairman.

Table of Contents**SELLING STOCKHOLDERS**

The 40,753,588 shares of common stock being offered by the selling stockholders consist of 40,268,921 shares that have been issued, and 484,667 shares issuable upon exercise of warrants owned by the selling stockholders. We are registering the shares of common stock so that the selling stockholders may offer the shares for resale from time to time.

Securities which have been acquired directly from the Company in a transaction not involving any public offering are usually considered restricted securities. The sale of restricted securities is generally restricted by the Securities Act of 1933, as amended. Rule 144 under the Securities Act of 1933 provides certain conditions under which restricted securities may be sold, and provisions under which any sales of restricted or unrestricted securities by our affiliates may be made. During any 90 day period the sale of restricted securities, or the sale of any securities by those shareholders who are deemed to be affiliates of the Company, is limited by Rule 144 to the greater of one percent (1%) of the outstanding shares of the Company's common stock, or the average weekly trading volume of the Company's common stock during the preceding four week period. The term affiliate is defined in Rule 144 as a person that directly or indirectly controls, is controlled by, or is under common control with, the issuer. In addition, for any sale of restricted securities, the securities must have been held by the selling stockholder for at least one year and they must be sold in brokers' transactions (as defined in Rule 144). The trading restrictions of Rule 144 continue to apply to affiliates for a period of three months following the date on which the shareholder no longer is considered an affiliate of the Company. All of the shares of common stock being offered under this prospectus are restricted securities, but Rule 144 permits sales after the restricted securities have been held for one year, subject to certain restrictions. Rule 144(k) permits sales without such restrictions if the securities have been held two years or more and the seller is not and has not been an affiliate for at least three months. Once the registration statement of which this prospectus forms a part is declared effective, the selling stockholders will be able to sell the shares covered hereby without complying with Rule 144, provided that the current prospectus is delivered as required by SEC rules and the Securities Act of 1933, except that if any selling stockholder is an affiliate of the Company at the time of any sale, the restrictions under Rule 144 relating to sales by affiliates will continue to apply and except that a selling stockholder which is a broker-dealer is an underwriter and is not eligible to rely on Rule 144. Any buyer which is an affiliate of the Company at the time it later sells any of our securities will be subject to the restrictions under Rule 144 relating to sales by affiliates. Otherwise, such buyer will be able to sell free of such restrictions.

The table below lists the selling stockholders and other information regarding the beneficial ownership of the common stock by each of the selling stockholders. The first column lists, for each selling stockholder, the number of shares of common stock held by such stockholder including shares issuable pursuant to exercise of warrants and options exercisable within 60 days to such stockholder. The second column lists the shares of common stock (including shares issued or issuable upon exercise of warrants) being offered by this prospectus by each selling stockholder. The column titled Ownership After Offering assumes the sale of all of the shares offered by each selling stockholder, although each selling stockholder may sell all, some or none of its shares in this offering. Except as otherwise noted in the notes to the table below, the business address of each selling stockholder is c/o the Company, 1280 Landmeier Road, Elk Grove Village, IL 60007-2410.

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Selling Stockholder	Ownership Prior to Offering		Securities Being Offered	Ownership After Offering	
	Shares	%		Shares	%
David R. Asplund (1)(48)	3,630,662(2)	6.956%	1,874,408(3)	1,756,254	3.365%
Augustine Fund LP(4)	2,675,791(5)	5.298%	2,555,926(6)	119,865	*
Bristol Capital Ltd.(7)	190,000(8)	*	180,000(9)	10,000	*
Christopher Capps	25,741	*	25,741(10)	0	0.000%
Cinergy Ventures II, LLC(11)	3,141,471(12)	6.217%	2,823,847(13)	317,624	*
John Donohue	307,459(14)	*	286,613(15)	20,846	*
Gregory H. Ekizian Revocable Trust	411,866	*	411,866(16)	0	0.000%
Julia Gluck	102,966	*	102,966(17)	0	0.000%
John Thomas Hurvis Revocable Trust	565,108(18)	1.119%	505,934(19)	59,174	*
Ingalls & Snyder, LLC (20)	6,303,748	12.487%	6,058,000(20)	245,748	*
Rebecca Kiphart	205,934	*	205,934(21)	0	0.000%
Richard P. Kiphart(22)(4)	15,013,601(23)	29.620%	14,213,260(24)	800,341	1.579%
Laurus Master Fund, Ltd(25)	1,531,461(26)	3.022%	1,404,477(27)	126,984	*
Leaf Mountain Company (28)	3,365,267	6.666%	3,275,300(29)	89,967	*
Martin Melish	257,416	*	257,416(30)	0	0.000%
Nettlestone Enterprises Ltd.(31)	1,544,500	3.059%	1,544,500(32)	0	0.000%
Security Equity Fund, Mid Cap Value Series (33)(48)	130,717(34)	*	130,717(35)	0	0.000%
SBL Fund Series V (33)(48)	103,333(36)	*	103,333(37)	0	0.000%
Security Mid Cap Growth Fund (33)(48)	91,967(38)	*	91,967(39)	0	0.000%
SBL Fund Series J(33)(48)	190,650(40)	*	190,650(41)	0	0.000%
SF Capital Partners Ltd. (42)	4,296,934(43)	8.512%	4,168,252(44)	128,682	*
David W. Valentine (45)	486,634(46)	*	342,481(47)	144,153	*

* *Less than 1%*

(1) David Asplund is a Director and has been our CEO since January 2006.

(2) Includes warrants to purchase 2,852 shares of common stock at \$1.00 per share anytime prior to September 7,

2008, which Mr. Asplund acquired in the ordinary course of business. At the time when Mr. Asplund acquired the warrant he had no agreements or understanding, directly or indirectly, with anyone to distribute the shares issuable under such warrant. Also includes 6,766 shares at common stock and a warrant held by Delano Group Securities, LLC, a broker-dealer of which Mr. Asplund is the principal owner (and therefore an affiliate of Mr. Asplund), to purchase 2,000 shares of common stock at \$15.45 per share anytime prior to February 10, 2010. Delano acquired the shares and

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warrant in the ordinary course of business and at the time when Delano acquired the securities it had no agreements or understanding, directly or indirectly, with anyone to distribute the share or the shares issuable under such warrant. The common stock and shares issuable pursuant to the warrant are not included as a securities being offered as part of this prospectus. Also includes the following employee and director options exercisable within 60 days:

Quantity	Exercise Price	Expiration Date
1,667	\$15.00	6/10/2013
1,112	\$15.00	6/10/2015
5,000	\$17.55	6/10/2012
1,666	\$27.75	6/10/2014
100,000	\$ 9.30	1/22/2016
100,000	\$ 0.96	1/22/2016
1,500,000	\$ 1.02	7/11/2016
1,709,445		

(3) Mr. Asplund
acquired
1,854,200

shares on
June 29, 2006,
consisting of
1,500,000
purchased in the
PIPE
Transaction, and
354,200
acquired
pursuant to the
Series E
Conversion.
Following the
filing of the
amendment
which made a 1
for 15 reverse
split of our
common stock
effective on
January 23,
2007 (the
Reverse Split),
the shares
acquired on
June 29, 2006
were combined
into 123,613
shares of
common stock.
On or about
February 1,
2007, we issued
1,730,587
catch-up shares
to him in
consideration of
his relinquishing
any claims
relating to the
timing of the
Reverse Split.
See Recent
Events *Reverse
Stock Split*. The
1,874,408
shares being
offered by Mr.
Asplund consist
of 1,652,200
catch-up shares,

100,000 shares deriving from the shares issued pursuant to the Series E Conversion, 77,708 shares deriving from the shares acquired in the PIPE Transaction and 44,500 shares issued on January 24, 2007 and February 2, 2007 in satisfaction of penalties owed to Mr. Asplund due to the Company's inability to register the shares he purchased in the PIPE Transaction on or before November 3, 2006.

- (4) The controlling members, directors and officers, all of whom are Thomas Duszynski, Brian Porter and John Porter, may be deemed to share power to vote or dispose of the shares held by Augustine Fund LP. The business address of Augustine

Fund LP is 141
West Jackson
Blvd.,
Suite 2182,
Chicago, Illinois
60604.

- (5) Includes warrants to purchase 18,125 shares of common stock at \$1.00 per share anytime prior to their expiration on September 7, 2008.
- (6) Augustine Fund LP acquired 2,628,000 shares on June 29, 2006, consisting of 1,628,000 shares acquired pursuant to the Series E Conversion and 1,000,000 shares purchased in the PIPE Transaction. Following the filing of the amendment which made the Reverse Split effective on January 23, 2007, the shares acquired on June 29, 2006 were combined into 175,200 shares of common stock. On or about February 1,

2007, we issued
2,452,800
catch-up shares
to Augustine
Fund in
consideration of
its relinquishing
any claims
relating to the
timing of the
Reverse Split.
See Recent
Events *Reverse
Stock Split*. The
2,555,926
shares being
offered by
Augustine Fund
consist of
2,386,133
catch-up shares,
66,667 shares
derived from the
shares acquired
in the PIPE
Transaction,
73,460 shares
deriving from
the shares
issued pursuant
to the Series E
Conversion, and
29,666 shares
issued on
January 24,
2007 and
February 2,
2007 in
satisfaction of
penalties owed
to Augustine
due to the
Company's
inability to
register the
shares it
purchased in the
PIPE
Transaction on
or before
November 3,

2006.

- (7) Bristol Capital Ltd. is beneficially owned by Yelena Akselrod. Bristol Capital Ltd. is currently acting as an Investor Relations consultant to the Company.

- (8) Includes a warrant to purchase 10,000 shares of common stock at \$15.45 per share anytime prior to its expiration on 1/25/08, a warrant to purchase 60,000 shares of common stock at \$1.00 per share anytime prior to its expiration on July 25, 2009 and a warrant to purchase

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120,000 shares
of common
stock at \$1.00
per share
anytime prior to
its expiration on
December 31,
2009.

- (9) Represents a
warrant to
purchase 60,000
shares of
common stock
at \$1.00 per
share anytime
prior to its
expiration on
July 25, 2009
and a warrant to
purchase
120,000 shares
of common
stock at \$1.00
per share
anytime prior to
its expiration on
December 31,
2009. All of the
shares being
offered by
Bristol Capital
Ltd. are shares
which would be
acquired by
exercising these
warrants.

- (10) Mr. Capps
purchased
25,000 shares in
the PIPE
Transaction on
June 29, 2006.
Following the
filing of the
amendment
which made the
Reverse Split

effective on
January 23,
2007, the shares
acquired on
June 29, 2006
were combined
into 1,667
shares of
common stock.
On or about
February 1,
2007, we issued
23,333 catch-up
shares to Mr.
Capps in
consideration of
his relinquishing
any claims
relating to the
timing of the
Reverse Split.
See Recent
Events *Reverse
Stock Split*. The
25,741 shares
being offered by
Mr. Capps
consist of
23,333 catch-up
shares, 1,667
shares deriving
from the shares
acquired in the
PIPE
Transaction and
741 shares
issued on
January 24,
2007 and
February 2,
2007 in
satisfaction of
penalties owed
to Mr. Capps
due to the
Company's
inability to
register the
shares he
purchased in the
PIPE

Transaction on
or before
November 3,
2006.

(11) Cinergy Technologies, Inc. is a wholly-owned subsidiary of Cinergy Corp. a publicly traded company, and is also the sole member of Cinergy Ventures II, LLC. Greg Wolf, a vice president of Cinergy Ventures, has the authority to vote and dispose of the shares held by Cinergy Ventures II, LLC. The business address of Cinergy Ventures II, LLC is 139 East Fourth Street, Cincinnati, Ohio 45202.

(12) Includes 3,092,513 shares of common stock, 45,625 shares of common stock issuable upon exercise of warrants and 3,333 shares of common stock issuable upon exercise of options. The warrants carry

an exercise price of \$1.00 per share. Warrants to purchase 5,625 shares expire on June 27, 2007 and warrants to purchase 40,000 shares expire on September 7, 2008. The options carry an exercise price of \$16.05 per share and expire on July 23, 2013.

- (13) Cinergy Ventures II, LLC acquired 3,002,293 shares on June 29, 2006, consisting of 1,902,293 shares acquired pursuant to the Series E Conversion and 1,100,000 shares purchased in the PIPE Transaction. Following the filing of the amendment which made the Reverse Split effective on January 23, 2007, the shares acquired on June 29, 2006 were combined into 200,153 shares of common stock. On or about February 1,

2007, we issued
2,802,140
catch-up shares
to Cinergy
Ventures II in
consideration of
its relinquishing
any claims
relating to the
timing of the
Reverse Split.
See Recent
Events *Reverse
Stock Split*. The
2,823,847
shares being
offered by
Cinergy
Ventures II
consist of
2,591,060
catch-up shares,
73,333 shares
deriving from
the shares
acquired in the
PIPE
Transaction,
126,820 shares
deriving from
the shares
issued pursuant
to the Series E
Conversion and
32,634 shares
issued on
January 24,
2007 and
February 2,
2007 in
satisfaction of
penalties owed
to Cinergy
Ventures II due
to the
Company's
inability to
register the
shares it
purchased in the
PIPE

Transaction on
or before
November 3,
2006.

- (14) Includes warrants to purchase 3,125 shares of common stock at \$1.00 per share anytime prior to their expiration on September 7, 2008.
- (15) Mr. Donohue acquired 294,000 shares on June 29, 2006 pursuant to the Series E Conversion. Following the filing of the amendment which made the Reverse Split effective on January 23, 2007, the shares acquired on June 29, 2006 were combined into 19,600 shares of common stock. On or about February 1, 2007, we issued 274,400 catch-up shares to Mr. Donohue in consideration of his relinquishing any claims relating to the timing of the Reverse Split.

See Recent
Events *Reverse*
Stock Split. The
286,613 shares
being offered by
Mr. Donohue
consist of
267,013
catch-up shares
and 19,600
shares deriving
from the shares
issued pursuant
to the Series E
Conversion.

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(16) The Gregeroy
H. Ekezian
Revocable Trust
purchased
400,000 shares
in the PIPE
Transaction on
June 29, 2006.
Following the
filing of the
amendment
which made the
Reverse Split
effective on
January 23,
2007, the shares
acquired on
June 29, 2006
were combined
into 26,667
shares of
common stock.
On or about
February 1,
2007, we issued
373,333
catch-up shares
to the Ekezian
Revocable Trust
in consideration
of its
relinquishing
any claims
relating to the
timing of the
Reverse Split.
See Recent
Events *Reverse
Stock Split*. The
411,866 shares
being offered by
the Ekezian
Revocable Trust
consist of
373,333
catch-up shares,
26,667 shares
deriving from
the shares

acquired in the
PIPE
Transaction and
11,866 shares
issued on
January 24,
2007 and
February 2,
2007, in
satisfaction of
penalties owed
to the Ekezian
Revocable Trust
due to the
Company's
inability to
register the
shares it
purchased in the
PIPE
Transaction on
or before
November 3,
2006.

- (17) Ms. Julia Gluck
purchased
100,000 shares
in the PIPE
Transaction on
June 29, 2006.
Following the
filing of the
amendment
which made the
Reverse Split
effective on
January 23,
2007, the shares
acquired on
June 29, 2006
were combined
into 6,667
shares of
common stock.
On or about
February 1,
2007, we issued
93,333 catch-up
shares to
Ms. Gluck in

consideration of her relinquishing any claims relating to the timing of the Reverse Split. See Recent Events *Reverse Stock Split*. The 102,966 shares being offered by Ms. Gluck consist of 93,333 catch-up shares, 6,667 shares deriving from the shares acquired in the PIPE Transaction and 2,966 shares issued on January 24, 2007 and February 2, 2006 in satisfaction of penalties owed to Ms. Gluck due to the Company's inability to register the shares she purchased in the PIPE Transaction on or before November 3, 2006.

(18) Includes the following warrants:

Quantity	Exercise Price	Expiration Date
4,630	\$ 15.75	4/28/2008
4,375	\$ 1.00	9/07/2008
352	\$ 1.00	6/27/2007

9,357

(19) John Thomas
Hurvis
Revocable Trust
acquired
540,053 shares
on June 29,
2006, consisting
of 340,053
shares acquired
pursuant to the
Series E
Conversion and
200,000 shares
purchased in the
PIPE
Transaction.
Following the
filing of the
amendment
which made the
Reverse Split
effective on
January 23,
2007, the shares
acquired on
June 29, 2006
were combined
into 36,004
shares of
common stock.
On or about
February 1,
2007, we issued
504,049
catch-up shares
to Hurvis
Revocable Trust
in consideration
of its
relinquishing
any claims
relating to the
timing of the
Reverse Split.
See Recent
Events *Reverse
Stock Split*. The
505,934 shares

being offered by
Hurvis
Revocable Trust
consist of
463,997
catch-up shares,
13,333 shares
deriving from
the shares
acquired in the
PIPE
Transaction,
22,670 shares
deriving from
the shares
issued pursuant
to the Series E
Conversion and
5,934 shares
issued on
January 24,
2007 and
February 2,
2007 in
satisfaction of
penalties owed
to the Hurvis
Revocable Trust
due to the
Company's
inability to
register the
shares it
purchased in the
PIPE
Transaction on
or before
November 3,
2006.

- (20) Ingalls &
Snyder, LLC is
the nominee
holder of shares
beneficial
owned by Mr.
Robert Gibson,
Mr. Thomas
Gipson and
Mr. Nikolaos
Monoyios. The

business address
for Ingalls &
Synder, LLC is
61 Broadway,
New York, NY
10006.

Mr. Robert
Gipson acquired
2,363,600
shares on
June 29, 2006,
consisting of
450,000 shares
purchased in the
PIPE
Transaction and
1,913,600
acquired
pursuant to the
Series E
Conversion.
Following the
filing of the
amendment
which made the
Reverse Split
effective on
January 23,
2007, the shares
acquired on
June 29, 2006
were combined
into 157,573
shares of
common stock.
On or about
February 1,
2007, we issued
2,206,027
catch-up shares
to Mr. Gipson in
consideration of
his relinquishing
any claims
relating to the
timing of the
Reverse Split.
See Recent
Events *Reverse
Stock Split*. The

2,256,750
shares being
offered by
Mr. Gipson

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consist of
2,093,840
catch-up shares,
30,000 shares
deriving from
the shares
acquired in the
PIPE
Transaction,
119,560 shares
deriving from
the shares
issued pursuant
to the Series E
Conversion, and
13,350 shares
issued on
January 24,
2007 and
February 2,
2007 in
satisfaction of
penalties owed
to Mr. Gipson
due to the
Company's
inability to
register the
shares he
purchased in the
PIPE
Transaction on
or before
November 3,
2006.

Mr. Thomas
Gipson
purchased
1,500,000
shares in the
PIPE
Transaction on
June 29, 2006.
Following the
filing of the
amendment
which made the
Reverse Split

effective on
January 23,
2007, the shares
acquired on
June 29, 2006
were combined
into 100,000
shares of
common stock.
On or about
February 1,
2007, we issued
1,400,000
catch-up shares
to Mr. Gipson in
consideration of
his relinquishing
any claims
relating to the
timing of the
Reverse Split.
See Recent
Events *Reverse
Stock Split*. The
1,544,500
shares being
offered by
Mr. Gipson
consist of
1,400,000
catch-up shares,
100,000 shares
deriving from
the shares
acquired in the
PIPE
Transaction and
44,500 shares
issued on
January 24,
2007 and
February 2,
2007 in
satisfaction of
penalties owed
to Mr. Gipson
due to the
Company's
inability to
register the
shares he

purchased in the
PIPE
Transaction on
or before
November 3,
2006.

Mr. Monoyios
acquired
2,363,600
shares on
June 29, 2006,
consisting of
1,913,600
shares acquired
pursuant to the
Series E
Conversion and
450,000 shares
purchased in the
PIPE

Transaction.
Following the
filing of the
amendment
which made the
Reverse Split
effective on
January 23,
2007, the shares
acquired on
June 29, 2006
were combined
into 157,573
shares of
common stock.

On or about
February 1,
2007, we issued
2,206,027
catch-up shares

to
Mr. Monoyios
in consideration
of his
relinquishing
any claims
relating to the
timing of the
Reverse Split.
See Recent

Events *Reverse Stock Split*. The 2,256,750 shares being offered by Mr. Monoyios consist of 2,085,840 catch-up shares, 30,000 shares deriving from the shares acquired in the PIPE Transaction, 127,560 shares deriving from the shares issued pursuant to the Series E Conversion and 13,350 shares issued on January 24, 2007 and February 2, 2007 in satisfaction of penalties owed to Mr. Monoyios due to the Company's inability to register the shares he purchased in the PIPE Transaction on or before November 3, 2006.

- (21) Ms. Rebecca Kiphart purchased 200,000 shares in the PIPE Transaction on June 29, 2006. Following the

filing of the amendment which made the Reverse Split effective on January 23, 2007, the shares acquired on June 29, 2006 were combined into 13,333 shares of common stock. On or about February 1, 2007, we issued 186,667 catch-up shares to Ms. Kiphart in consideration of her relinquishing any claims relating to the timing of the Reverse Split. See Recent Events *Reverse Stock Split*. The 205,934 shares being offered by Ms. Kiphart consist of 186,667 catch-up shares, 13,333 shares deriving from the shares acquired in the PIPE Transaction and 5,934 shares issued on January 24, 2007 and February 2, 2007 in satisfaction of penalties owed to Ms. Kiphart due to the

Company's inability to register the shares she purchased in the PIPE Transaction on or before November 3, 2006.

(22) Richard Kiphart has been a director and the Chairman of our Board of Directors since January 2006.

(23) Includes 14,810,072 shares of common stock and the following options and warrants exercisable within 60 days:

Instrument	Quantity	Exercise Price	Expiration Date
Warrant	18,750	\$ 1.00	12/4/2006
Warrant	8,398	\$ 1.00	4/23/2008
Warrant	43,125	\$ 1.00	9/7/2008
Warrant	4,922	\$ 1.00	6/27/2007
Option	3,334	\$15.00	1/24/2016
Option	100,000	\$ 1.02	7/11/2016
Option	25,000	\$ 0.90	1/2/2017
	203,529		
	26		

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(24) Mr. Kiphart acquired 14,603,400 shares on June 29, 2006, consisting of 8,903,400 shares acquired pursuant to the Series E Conversion and 5,700,000 shares purchased in the PIPE Transaction. Following the filing of the amendment which made the Reverse Split effective on January 23, 2007, the shares acquired on June 29, 2006 were combined into 973,560 shares of common stock. On or about February 1, 2007, we issued 13,629,840 catch-up shares to Mr. Kiphart in consideration of his relinquishing any claims relating to the timing of the Reverse Split. See Recent Events *Reverse Stock Split*. The 14,213,260 shares being offered by Mr. Kiphart

consist of
13,070,600
catch-up shares,
380,000 shares
deriving from
the shares
acquired in the
PIPE
Transaction,
593,560 shares
deriving from
the shares issued
pursuant to the
Series E
Conversion and
169,100 shares
issued on
January 24, 2007
and February 2,
2006 in
satisfaction of
penalties owed
to Mr. Kiphart
due to the
Company's
inability to
register the
shares he
purchased in the
PIPE
Transaction on
or before
November 3,
2006.

- (25) Laurus Master
Fund, Ltd.
exercises
dispositive and
voting control
with respect to
the securities to
be offered for
resale. Laurus
Capital
Management,
LLC controls
Laurus Master
Fund, Ltd.
Eugene Grin and
David Grin are

the sole members of Laurus Capital Management, LLC. From September 2003 through June 2006, Laurus was a lender to the Company. On June 29, 2006, all obligations owing to Laurus were repaid in full and the only continuing relationship between the Company and Laurus is that of an issuer and a holder of its common stock and warrants.

(26) Includes the following warrants:

Quantity	Exercise Price	Expiration Date
26,667	\$15.00	4/26/2010
133,333	\$17.40	11/22/2012
2,667	\$36.60	9/11/2008
5,333	\$38.10	9/11/2008
3,333	\$39.75	9/11/2008
6,667	\$44.55	9/11/2008
3,333	\$46.05	9/11/2008
6,667	\$47.70	9/11/2008
188,000		

(27) Laurus Master Fund, Ltd. acquired 1,343,461 shares on June 29, 2006 in satisfaction of obligations of the Company to

Laurus. (See Recent Events *The PIPE Transaction, Series E Preferred Conversion and Laurus Repayment.*)

Following the filing of the amendment which made the Reverse Split effective on January 23, 2007, the shares acquired on June 29, 2006 were combined into 89,564 shares of common stock.

On or about February 1, 2007, we issued 1,253,897 catch-up shares to Laurus in consideration of its relinquishing any claims relating to the timing of the Reverse Split.

See Recent Events *Reverse Stock Split*. The 1,404,477 shares being offered by Laurus consist of 1,253,897 catch-up shares, 89,564 shares deriving from the shares acquired on June 29, 2006, and 188,000 shares which would be acquired by

exercising
warrants issued
by the Company
to Laurus as
described in
Note (26) above.

(28) John J. Jiganti is the Manager of Leaf Mountain Company and has the sole decision-making power with respect to Leaf Mountain Company's investment in Lime Energy. Mr. Gerald Pientka, who is one of our directors, is also a member of Leaf Mountain Company, LLC. The business address for Leaf Mountain is 190 South LaSalle Street, Suite 1700, Chicago, IL 60603.

(29) Leaf Mountain Company acquired 3,315,900 shares on June 29, 2006, consisting of 2,015,900 shares acquired pursuant to the Series E Conversion and 1,300,000 shares purchased in the PIPE Transaction. Following the

filing of the amendment which made the Reverse Split effective on January 23, 2007, the shares acquired on June 29, 2006 were combined into 221,060 shares of common stock.

On or about February 1, 2007, we issued 3,094,840 catch-up shares to Leaf Mountain in consideration of its relinquishing any claims relating to the

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timing of the Reverse Split.
See Recent Events *Reverse Stock Split*. The 3,275,300 shares being offered by Leaf Mountain consist of 3,015,674 catch-up shares, 86,667 shares deriving from the shares acquired in the PIPE Transaction, 134,393 shares deriving from the shares issued pursuant to the Series E Conversion and 38,566 shares issued on January 24, 2007 and February 2, 2007 in satisfaction of penalties owed to Leaf Mountain due to the Company's inability to register the shares it purchased in the PIPE Transaction on or before November 3, 2006.

(30) Mr. Mellish purchased 250,000 shares in the PIPE

Transaction on
June 29, 2006.
Following the
filing of the
amendment
which made the
Reverse Split
effective on
January 23,
2007, the shares
acquired on
June 29, 2006
were combined
into 16,667
shares of
common stock.
On or about
February 1,
2007, we issued
233,333
catch-up shares
to Mr. Mellish
in consideration
of his
relinquishing
any claims
relating to the
timing of the
Reverse Split.
See Recent
Events *Reverse
Stock Split*. The
257,416 shares
being offered by
Mr. Mellish
consist of
233,333
catch-up shares,
16,667 shares
deriving from
the shares
acquired in the
PIPE
Transaction. and
7,416 shares
issued on
January 24,
2007 and
February 2,
2007 in
satisfaction of

penalties owed
to Mr. Mellish
due to the
Company's
inability to
register the
shares he
purchased in the
PIPE
Transaction on
or before
November 3,
2006.

(31) Nettlestone
Enterprises Ltd.
is beneficially
owned by
Mr. Khalid Ali
Alturki. The
business address
for Nettlestone
is c/o Aspen
Advisory
Services Ltd.,
44 Lowndes
Street, London
SW1X 9HX.

(32) Nettlestone
Enterprises Ltd.
purchased
1,500,000
shares in the
PIPE
Transaction on
June 29, 2006.
Following the
filing of the
amendment
which made the
Reverse Split
effective on
January 23,
2007, the shares
acquired on
June 29, 2006
were combined
into 100,000
shares of
common stock.

On or about February 1, 2007, we issued 1,400,000 catch-up shares to Nettlestone Enterprises in consideration of its relinquishing any claims relating to the timing of the Reverse Split. See Recent Events *Reverse Stock Split*. The 1,544,500 shares being offered by Nettlestone Enterprises consist of 1,400,000 catch-up shares, 100,000 shares deriving from the shares acquired in the PIPE Transaction and 44,500 shares issued on January 24, 2007 and February 2, 2007 in satisfaction of penalties owed to Nettlestone due to the Company's inability to register the shares it purchased in the PIPE Transaction on or before November 3, 2006.

(33) Security Management Company, LLC (SMC), an investment advisor registered under Section 203 of the Investment Advisers Act of 1940, is the investment advisor to; (a) Security Mid Cap Growth Fund, (b) Security Equity Fund, Mid Cap Value Series, (c) SBL Fund, Series J and (d) SBL Fund, Series V (collectively, the Funds). The securities listed in the above table are owned by the Funds, as investment companies registered under the Investment Company Act of 1940, as amended. Pursuant to investment management agreements entered into between SMC and each of the Funds, SMC holds investment discretion to purchase and sell the shares on behalf of the Funds. SMC

generally appoints individual portfolio managers to make investment decisions on its behalf, although in certain instances a portfolio manager may delegate authority to another SMC employee to execute isolated transactions. Additionally, SMC holds the power to vote the securities and exercises this power through formal proxy voting procedures (the Procedures) it has adopted. With respect to matters to be voted on that are not addressed in the Procedures or where the Procedures indicate that voting decisions are to be made on a case-by-case basis, the Procedures state that the portfolio manager on the account shall direct the vote, provided that SMC's chief

compliance officer has determined that SMC has no conflict of interest in the matter. James P. Schier is currently the portfolio manager with respect to the Funds. SMC has the sole discretion to change portfolio managers at any time. The shares of Lime Energy stock held by these selling shareholders were obtained through a private placement of our common stock and warrants to purchase shares of our common stock on March 19, 2004. The business address for Security Management Company, LLC is One Security Benefit Place, Topeka, KS 66636-0001.

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- (34) Includes warrants to purchase 29,517 shares of common stock at \$1.00 per shares anytime prior to their expiration on March 19, 2009.
- (35) Of the 130,717 shares being offered by Security Equity Fund, Mid Cap Value Series, 29,517 are shares which would be acquired pursuant to exercise of the warrants described in Note (34), 84,333 are shares purchased from the Company on March 19, 2004 and 16,867 were purchased in a private transaction on March 19, 2004 from a former holder of the Company's Series A Convertible Preferred Stock.
- (36) Includes warrants to purchase 23,333 shares of common stock at \$1.00 per shares

anytime prior to their expiration on March 19, 2009.

(37) Of the 103,333 shares being offered by SBL Fund Series V, 23,333 are shares which would be acquired pursuant to exercise of the warrants described in Note (36), 66,667 are shares purchased from the Company on March 19, 2004 and 13,333 were purchased in a private transaction on March 19, 2004 from a former holder of the Company's Series A Convertible Preferred Stock.

(38) Includes warrants to purchase 20,767 shares of common stock at \$1.00 per shares anytime prior to their expiration on March 19, 2009.

(39) Of the 91,967 shares being offered by Security Mid Cap Growth

Fund, 20,767 are shares which would be acquired pursuant to exercise of the warrants described in Note (38), 59,333 are shares purchased from the Company on March 19, 2004 and 11,867 were purchased in a private transaction on March 19, 2004 from a former holder of the Company's Series A Convertible Preferred Stock.

(40) Includes warrants to purchase 43,050 shares of common stock at \$1.00 per share anytime prior to their expiration on March 19, 2009.

(41) Of the 190,650 shares being offered by SBL Fund Series J, 43,050 are shares which would be acquired pursuant to exercise of the warrants described in Note (40), 123,000 are

shares purchased from the Company on March 19, 2004 and 24,600 were purchased in a private transaction on March 19, 2004 from a former holder of the Company's Series A Convertible Preferred Stock.

- (42) SF Capital Partners Ltd. is a British Virgin Island company. Staro Asset Management, L.L.C., a Wisconsin limited liability company, acts as investment manager and has sole power to direct the management of SF Capital Partners. Through Staro Asset Management, Messrs. Michael A. Roth and Brian J. Stark possess sole voting and dispositive power over all shares owned by SF Capital Partners, but disclaim beneficial ownership of such shares. The mailing address

for SF Capital Partners is c/o Stark Offshore Management, LLC, 3600 South Lake Drive, St. Francis, WI 53235.

- (43) Excludes warrants to purchase 42,813 shares of common stock which contain provisions known as exercise caps which prohibit the holder of the warrants (and its affiliates) from exercising such warrants to the extent that giving effect to such exercise, such holder would beneficially own in excess of 4.999% and 9.999% of the Company's outstanding common stock, as the case may be. The holder can waive the 4.999% limit, but such waiver will not become effective until the 61st day after such notice is delivered to the Company, and these limits will not restrict the number of shares

of common stock which a holder may receive or beneficially own in order to determine the amount of securities or other consideration that such holder may receive in the event of a merger or other business combination or reclassification involving the Company. The table set forth above reflects the operation of such exercise caps in that we have not included 42,813 shares of common stock issuable pursuant to such warrants as SF Capital Partners has advised us that it does not beneficially own such shares due to the fact that it cannot exercise its right to purchase these shares at this time. In the absence of such caps, SF Capital would be able to purchase all the shares issuable upon exercise of these warrants and

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would have a beneficial ownership percentage of 8.589%. Information on these warrants is as follows:

	Exercise Price	Expiration Date
Quantity		
20,000	\$1.00	2/27/2008
20,000	\$1.00	9/7/2008
2,813	\$1.00	6/27/2007
42,813		

(44) SF Capital Partners acquired 4,237,600 shares on June 29, 2006, consisting of 2,237,600 shares acquired pursuant to the Series E Conversion and 2,000,000 shares purchased in the PIPE Transaction. Following the filing of the amendment which made the Reverse Split effective on January 23, 2007, the shares acquired on June 29, 2006 were combined into 282,507 shares of common stock. On or about

February 1, 2007, we issued 3,955,093 catch-up shares to SF Capital in consideration of its relinquishing any claims relating to the timing of the Reverse Split. See Recent Events *Reverse Stock Split*. The 4,168,252 shares being offered by SF Capital consist of 3,825,872 catch-up shares, 133,333 shares deriving from the shares acquired in the PIPE Transaction, 149,713 shares deriving from the shares issued pursuant to the Series E Conversion and 59,344 shares issued on January 24, 2007 and February 2, 2007 in satisfaction of penalties owed to SF Capital due to the Company's inability to register the shares he purchased in the PIPE Transaction on or before November 3,

2006.

(45) David Valentine has been one of our Directors since May 2004.

(46) Includes the following options issued pursuant to the Directors Option Plan which are exercisable within the next 60 days:

Quantity	Exercise Price	Expiration Date
1,112	\$ 15.00	5/26/2015
556	\$ 15.00	5/26/2016
4,999	\$ 26.10	5/26/2014
100,000	\$ 1.02	7/11/2016
25,000	\$ 0.90	1/2/2017
131,667		

(47) Mr. Valentine acquired 345,700 shares on June 29, 2006, consisting of 145,700 shares acquired pursuant to the Series E Conversion and 200,000 shares purchased in the PIPE Transaction. Following the filing of the amendment which made the Reverse Split effective on January 23, 2007, the shares acquired on

June 29, 2006
were combined
into 23,047
shares of
common stock.
On or about
February 1,
2007, we issued
322,653
catch-up shares
to Mr. Valentine
in consideration
of his
relinquishing
any claims
relating to the
timing of the
Reverse Split.
See Recent
Events *Reverse
Stock Split*. The
342,481 shares
being offered by
Mr. Valentine
consist of
313,501
catch-up shares,
13,333 shares
deriving from
the shares
acquired in the
PIPE
Transaction,
9,713 shares
deriving from
the shares
issued pursuant
to the Series E
Conversion and
5,934 shares
issued on
January 24,
2007 and
February 2,
2007 in
satisfaction of
penalties owed
to Mr. Valentine
due to the
Company's
inability to

register the
shares he
purchased in the
PIPE
Transaction on
or before
November 3,
2006.

- (48) The selling
stockholder is
an affiliate of a
broker-dealer,
acquired the
common stock
in the ordinary
course of
business and, at
the time of
acquisition, did
not have any
arrangements or
understandings,
directly or
indirectly, with
any person to
distribute the
common stock.

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DESCRIPTION OF SECURITIES

In the following summary, we describe the material terms of our capital stock by summarizing material provisions of our charter and by-laws. We have incorporated by reference these organizational documents as exhibits to the registration statement of which this prospectus is a part.

General

As of February 2, 2007, we had 200,000,000 authorized shares of common stock and 5,000,000 shares of authorized preferred stock, of which:

50,316,902 shares are issued and outstanding;

166,149 shares of common stock were being held in escrow for the benefit of the selling shareholders of Maximum Performance Group (MPG) to be released over the two year period following the purchase of MPG (May 3, 2005) if it achieves certain revenue targets during the period. Any shares not issued to the selling shareholders will be returned to the Company at the end of the two year period. To date, no shares have been released from such Escrow.

1,245,869 shares of common stock are issuable upon exercise of outstanding common stock warrants;

11,059,604 shares of common stock are issuable upon exercise of outstanding stock options; and

No shares of preferred stock or other rights or options, warrants to acquire preferred stock are outstanding.

Common Stock

Holders of our common stock are entitled to one vote per share on all matters submitted to a vote of our stockholders and will share ratably on a per share basis in any dividends declared on our common stock. Holders of our common stock have no preemptive, subscription, redemption or conversion rights. Upon our liquidation, dissolution or winding up and after payment of all prior claims, the holders of shares of common stock would share ratably on a per share basis in all of our assets. All shares of common stock currently outstanding are fully paid and nonassessable. Any shares of common stock which the selling stockholders acquire through exercise of their warrants will also be fully paid and nonassessable.

Preferred Stock

Our board of directors, without further stockholder approval, may authorize the issuance of preferred stock in one or more series from time to time and fix or alter the designations, relative rights, priorities, preferences, qualifications, limitations and restrictions of the shares of each series. The rights, preferences, limitations and restrictions of different series of preferred stock may differ with respect to dividend rates, amounts payable on liquidation, voting rights, conversion rights, redemption provisions, sinking fund provisions and other matters. Our board of directors (1) may authorize the issuance of preferred stock that ranks senior to our common stock for the payment of dividends and the distribution of assets on liquidation, (2) can fix limitations and restrictions upon the payment of dividends on our common stock to be effective while any shares of preferred stock are outstanding, and (3) can also issue preferred stock with voting and conversion rights that could adversely affect the voting power of the holders of common stock.

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Warrants

Included in the shares of common stock being registered pursuant to this prospectus are 484,667 shares issuable upon the exercise of warrants. These warrants include:

A three year warrant held by Bristol Capital, Ltd. to purchase 60,000 shares of common stock at \$1.00 per share on, or anytime before, July 25, 2009;

A three year warrant held by Bristol Capital, Ltd. to purchase 120,000 shares of common stock at \$1.00 per share on, or anytime before, December 31, 2009;

A five year warrant held by Laurus Master Fund, Ltd. to purchase 26,667 shares of common stock at \$15.00 per share on, or anytime before, April 26, 2010;

The following five year warrants held by Laurus Master Fund, Ltd. which all expire on November 8, 2008 and contain cashless exercise options, which permits the holder to surrender a portion of the shares issuable upon exercise of the warrant as payment of the exercise price (valuing the surrendered shares at the then current market price):

Quantity	Exercise Price
2,667	\$36.60
5,333	\$38.10
3,333	\$39.75
6,667	\$44.55
3,333	\$46.05
6,667	\$47.70
28,000	

A seven year warrant held by Laurus Master Fund, Ltd. to purchase 133,333 shares of common stock at \$17.40 per share on, or anytime before, November 22, 2012. This warrant contains a cashless exercise option, which permits the holder to surrender a portion of the shares issuable upon exercise of the warrant as payment of the exercise price (valuing the surrendered shares at the then current market price); and

Five year warrants held by Security Equity Fund, Mid Cap Value Series, SBL Fund Series V, Security Mid Cap Growth Fund and SBL Fund Series J to purchase 116,667 shares of common stock at \$1.00 per share on, or anytime before, March 19, 2009. These warrants contain anti-dilution provisions which automatically adjust the exercise price of the warrant if:

- o A) we issue shares of our common stock at a price that is less than the exercise price of the warrants and less than the market price of our common stock at that time, or
- o B) we issue securities convertible into shares of common stock and the purchase price for such securities plus the consideration (if any) to be paid upon conversion of such securities into common stock, when divided by the number of common stock shares issuable upon such conversion yields a price per share (the Per Share Consideration) less than the market price of our common stock on the date of issuance of such convertible securities, and the Per Share Consideration is less than the exercise price of the warrant.

In the event the security issuance meets the conditions of A or B, then the exercise price of the warrants will be reduced to the issuance price (in the case of A) or an amount equal to the Per Share Consideration of such convertible securities (in the case of B).

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The exercise price and number of shares issuable upon exercise of all of these warrants will automatically be adjusted to reflect any stock split, reverse split, stock dividend or similar event affecting our common stock.

Delaware Anti-Takeover Law

We are subject to the provisions of Section 203 of the Delaware General Corporation Law. In general, this section prohibits a publicly held Delaware corporation from engaging in a business combination with an interested stockholder for a period of three years after the date of the transaction in which the person becomes an interested stockholder, unless:

before the date on which the stockholder became an interested stockholder, the corporation's board of directors approved either the business combination or the transaction in which the person became an interested stockholder;

the stockholder acquires more than 85% of the outstanding voting stock of the corporation, excluding shares held by directors who are officers or held in certain employee stock plans, upon consummation of the transaction in which the stockholder becomes an interested stockholder; or

the business combination is approved by the board of directors and by two-thirds of the outstanding voting stock of the corporation that is not held by the interested stockholder, at a meeting of the stockholders held on or after the date of the business combination.

An interested stockholder is a person who, together with affiliates and associates, owns, or at any time within the prior three years did own, 15% or more of the corporation's voting stock. Business combinations include, without limitation, mergers, consolidations, stock sales, asset sales or other transactions resulting in a financial benefit to interested stockholders.

Anti-Takeover Effects of Certain Charter and By-Law Provisions

Our charter and by-laws contain provisions relating to corporate governance and to the rights of stockholders. Our by-laws provide that special meetings of stockholders may only be called by our Board of Directors, our Chairman of the Board or our President and shall be called by our Chairman, President or Secretary at the request in writing of stockholders owning at least one-fifth of the outstanding shares of capital stock entitled to vote. In addition, our charter provides that our Board of Directors may authorize the issuance of preferred stock without further stockholder approval and upon those terms and conditions, and having those rights, privileges and preferences, as our Board of Directors may determine.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is LaSalle Bank N.A.

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EXPERTS

The financial statements and schedule of Lime Energy Co. (formerly known as Electric City Corp.) and the financial statements of Parke P.A.N.D.A. Corporation included in this Prospectus and in the Registration Statement have been audited by BDO Seidman, LLP, an independent registered public accounting firm, to the extent and for the periods set forth in their reports (which report for Lime Energy Co. (formerly known as Electric City Corp.) contains an explanatory paragraph regarding the Company's ability to continue as a going concern) included herein and in the Registration Statement, and are included in reliance upon such reports given upon the authority of said firm as experts in auditing and accounting.

The financial statements of Maximum Performance Group, Inc. included in this Prospectus and in the Registration Statement have been audited by Marcum & Kliegman LLP, an independent registered public accounting firm, to the extent and for the periods set forth in their report (which contains an explanatory paragraph regarding Maximum Performance Group's ability to continue as a going concern) included herein and in the Registration Statement, and are included in reliance upon such report given upon the authority of said firm as experts in auditing and accounting.

COMMISSION POSITION ON INDEMNIFICATION FOR SECURITIES ACT LIABILITY

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers and controlling persons pursuant to our charter, bylaws or otherwise, we have been advised that in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim of indemnification against such liabilities (other than the payment by us of expenses incurred or paid by one of our directors, officers or controlling persons in the successful defense of any action, suit or proceeding) is asserted by one of our directors, officers or controlling persons in connection with the securities being registered, we will, unless in the opinion of our counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by us is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

DESCRIPTION OF BUSINESS

Overview/History

We are a developer, manufacturer and integrator of energy saving technologies. Our energy saving products include the eMAC system, which provides intelligent control and continuous monitoring of HVAC and lighting equipment via wireless communication technology to reduce energy usage and improve system reliability and the EnergySaver system, which reduces energy consumed by lighting with minimal lighting level reduction. Our technology has been installed in applications in commercial buildings, factories and office structures, as well as street lighting and parking lot lighting. Our GlobalCommander integrates with the EnergySaver, allowing us to link multiple EnergySaver units together and to provide remote communications, measurement and verification of energy savings.

From June 2001 through March 2006 we also provided, through our subsidiary, Great Lakes Controlled Energy Corporation, a Delaware Corporation (Great Lakes), integrated building and environmental control solutions for commercial and industrial facilities.

Until June 1, 2003, we also manufactured custom electrical switchgear through our subsidiary Switchboard Apparatus Inc. (Switchboard)

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On December 5, 1997, we were initially 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.

On June 10, 1998, Electric City issued shares of our common stock with a fair market value of \$1,200,272, representing approximately six (6%) percent of Electric City's then issued and outstanding common stock, to the approximately 330 shareholders of Pice Products Corporation ("Pice"), an inactive, unaffiliated company with minimal assets, pursuant to a merger agreement under which Pice was merged with and into Electric City. The purpose of the merger was to substantially increase the number of our shareholders to facilitate the establishment of a public trading market for our common stock. Trading in our common stock commenced on August 14, 1998 through the OTC Bulletin Board under the trading symbol "ECCC".

In May 1999, we purchased most of the assets of Marino Electric, Inc., an entity engaged in the business of designing and manufacturing custom electrical switchgear and distribution panels.

On August 31, 2000 we acquired Switchboard Apparatus.

On June 7, 2001 we acquired Great Lakes.

On June 3, 2003, we entered into an asset purchase agreement with Hoppensteadt Acquisition Corp., whereby Hoppensteadt acquired all of the assets, except for certain receivables and cash, and assumed all of the liabilities, except for bank debt, of Switchboard Apparatus, as of May 31, 2003.

On May 3, 2005, we acquired Maximum Performance Group, Inc. ("MPG"). MPG is a technology based provider of energy and asset management products and services. MPG manufactures and markets its eMAC line of controllers for HVAC and lighting applications. The eMAC line of controllers provide intelligent control and continuous monitoring of HVAC and lighting equipment via wireless communication technology to reduce energy usage and improve system reliability. MPG has offices in New York City and San Diego, California.

On April 3, 2006, we sold all of the capital stock of Great Lakes Controlled Energy Corporation to its former owners, effective as of March 31, 2006.

On June 29, 2006, we acquired Parke P.A.N.D.A. Corporation ("Parke"). Parke (now named Parke Industries, LLC) is an energy services provider specializing in the design, engineering and installation of energy efficient lighting upgrades for commercial and industrial users. Parke has 30 employees and is headquartered in Glendora, California, with offices in Danville and Carmel, California.

On September 13, 2006 we changed our name to Lime Energy Co. after merging with a wholly owned subsidiary which was set up solely for the purpose of effecting a name change. On September 22, 2006 our stock began trading on the OTC Bulletin Board under the trading symbol "LMEC",

On September 26, 2006, we acquired Kapadia Consulting, Inc. (now named Kapadia Energy Services, Inc.), effective September 27, 2006. Kapadia is an engineering firm that specializes in energy management consulting and energy efficient lighting upgrades for commercial and industrial users. Kapadia has seven employees, is headquartered in Peekskill, New York, and has an office in Ventura, California.

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Products And Services

The Company currently manufactures products and provides services under two distinct business segments. The energy technology segment includes the manufacturing and sale of the eMAC and uMAC product lines and the EnergySaver and the GlobalCommander. Commencing June 30, 2006, we formed an energy services business segment, which is served by our subsidiaries, Parke Industries, LLC and Kapadia Energy Services, Inc. Parke specializes in the design, engineering and installation of energy efficient lighting upgrades for commercial and industrial users and Kapadia is an engineering consulting firm that specializes in energy efficiency and energy management.

eMAC & uMAC

The eMAC system is comprised of a heating, ventilating and air conditioning (HVAC) controller with wireless communication capabilities and a central, server based, Internet accessible software that monitors and controls the operation of the connected HVAC units. The eMAC system is designed for use in commercial and industrial applications with packaged (primarily rooftop) HVAC equipment of 2 to 40 tons (1 ton = 12,000 Btu/hr cooling capacity) and up to 500,000 Btu/hr of heating capacity.

The eMAC controller is contained in a small box that is mounted on the exterior of a customer's HVAC unit. The controller is wired into the HVAC equipment and monitors up to 126 points of the equipment's operation. In addition, each eMAC contains a Pentech Energy Recovery Controller (PERC), a patented third generation microprocessor-based technology.

PERC was developed by Pentech Solutions, a predecessor company to MPG, and is designed to dynamically match an HVAC system's output to any given load condition, thereby improving the operating efficiency of the equipment. Since most HVAC systems are designed to maintain comfortable environmental conditions on both the hottest and coldest days likely to be experienced, there exists substantial excess system capacity on most days of the year. Due to this excess capacity, the system quickly satisfies a thermostat's call for heating or cooling, and in doing so overshoots the thermostat set point and leaves Btu's of heat or cooling in the heat exchanger, cooling coils and air ducts. The PERC controller acts to correct this by periodically turning off the air conditioner's compressor and condenser fan while continuing to run the evaporator fan, thereby continuing to deliver cooling to the conditioned space utilizing the energy stored in the cooling coils, heat exchanger and air ducts. In heating applications, PERC periodically closes the gas valve while continuing to operate the indoor air fan, delivering heated air into the space utilizing the heat stored in the heat exchanger and air ducts. At the same time, the PERC controller is monitoring the rate of temperature change in the conditioned space in order to avoid overshooting the desired temperature setting. The PERC technology typically will result in energy savings of 15% to 20% for our end user customers.

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The wireless communication capabilities of the eMAC allow us to monitor and remotely manage the operation of a customer's HVAC equipment. A customer can log on to our eMAC web site and obtain information regarding the operation of its HVAC equipment and change equipment operating parameters, such as hours of operation and temperature. The eMAC will also send alarms to our central server when any of the up to 126 monitored points of operation fall outside predetermined operating ranges. This often permits us to react to a potential equipment problem before the occupants of the space are aware of an equipment malfunction. We charge our customers for this ability to communicate and remotely monitor and manage their equipment, though we often include an initial monitoring period with the purchase of the eMAC so that our customers can become familiar with the benefits of this service.

The uMAC is a version of the eMAC which has been simplified to remotely control the operation of a facility's lights via wireless communications. Using the uMAC a customer can remotely, via the Internet, turn lights on and off and change the daily schedule for the operation of a facility's lighting.

EnergySaver

The EnergySaver system is a state-of-the-art lighting control system that reduces energy consumption of indoor and outdoor commercial, institutional and industrial ballasted lighting systems, while maintaining appropriate lighting levels. The EnergySaver is a freestanding enclosure that contains control panels with electrical parts and is connected between the incoming power line and the building's electrical lighting circuits. The EnergySaver also contains a microprocessor with software that allows the customer to control the amount of energy savings desired which, depending on the application, is typically between 20% and 30%, and provides self-diagnosis and self-correction. The customer can access the EnergySaver's microprocessor directly or remotely via modem, network or two-way radio.

The EnergySaver is manufactured to varying sizes and capacities to address differing lighting situations. We can interface our EnergySaver products with most new and existing lighting panels, ballasts and lamps without modification. In addition, the EnergySaver system reduces the power consumed by lamps, resulting in a reduction of heat generated within the lighting system, which enhances ballast and lamp life and reduces the amount of air conditioning necessary to cool the building.

Due to changes in lighting technology we expect revenue from the EnergySaver system (which includes the GlobalCommander) to decline in future periods, but we believe this will be more than offset by increases in eMAC revenue and revenue from our other recently acquired business: Parke Industries and Kapadia Energy Services.

GlobalCommander

The GlobalCommander system is an advanced lighting controller designed to permit central control and monitoring of multiple EnergySaver units and allows for large-scale demand side management and savings measurement and verification without turning off the user's lights. The GlobalCommander bundles the EnergySaver technology with an area-wide communication package to allow for energy reductions across entire systems in response to the guidelines of a customer's facility manager. In addition, the GlobalCommander has the ability to measure and store information about the actual savings generated from the use of the EnergySaver. This information, which can be viewed in a tabular or graphical format and can be downloaded to a user's computer, is often required for a customer to qualify for utility incentives for energy savings and curtailment. The GlobalCommander also allows customers to control their facilities' loads and lighting requirements from a single control point. This single-point control is available for a virtually unlimited number of remote facilities and can be accessed through the Internet, intranet or over standard telephone lines through dial-up modems.

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Energy Services

Through our wholly owned subsidiary, Parke Industries, LLC, which we acquired at the end of June 2006, we market, design, engineer and install energy efficient lighting upgrades for commercial and industrial users. Parke will determine the best lighting solutions for its customers, taking into consideration factors such as lighting requirements, building environmental conditions, energy costs, available utility and/or tax incentives, and installation, operating and maintenance costs of various lighting alternatives, to select the best solution for its customers. It will then remove the existing lighting system and replace it with the new lighting system using its own installation crews. In most situations, Parke's customer will realize paybacks of 12 to 24 months on their lighting system upgrade and very often also improve the overall quality of lighting in their facilities.

Our other recently acquired subsidiary, Kapadia Energy Services, Inc., provides energy engineering services to assist customers in improving their energy efficiency and to better manage their energy costs. Some of the services that Kapadia offers its customers include building energy audits to determine ways to improve energy efficiency, HVAC and boiler system optimization, energy management planning, engineering design review with a view to optimizing energy efficiency and energy rebates, energy project management, and lighting engineering and design. Kapadia will also provide turnkey lighting upgrades in which it will purchase all of the materials and labor for energy efficient lighting upgrades, much like Parke does, except that it does not have its own installation crews.

Marketing, Sales and Distribution

The majority of our sales are derived through the efforts of our internal sales force. Prior to late 2005, each of our subsidiaries had their own sales force which primarily sold only their products. In late 2005, we began to integrate our subsidiaries and establish geographic profit centers in which our salespeople will sell all of the Company's subsidiaries products. Initially we will be organized into three profit centers: East Coast (managed out of our New York office), Midwest (managed out of our Chicago office) and West Coast (managed out of our San Diego office). We believe our proprietary energy technologies differentiate us from other providers of energy solutions and provide our customers with superior returns on their investments.

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During 2005, two customers, Kohl's Department Stores and Duane Read Inc., accounted for approximately 37% and 11% of our consolidated billings, respectively. During 2004, sales to five customers accounted for approximately 86% of our total consolidated revenue. Our largest customers for 2004 were Public Energy Solutions (39%), Electric City of New Jersey (14%), Electric City of Pennsylvania (12%), Control Ambiente Y Mantenimiento (11%) and the New York Power Authority (10%). During 2003, three customers accounted for approximately 72% of our total consolidated revenue. The top three customers during 2003 were M&A Railroad and Electric Supply (34%), Electric City of Pennsylvania (24%), and Morrow Meadow Corp. (15%). M&A Railroad and Electric Supply ceased to be a dealer in December 2003 and Electric City of Pennsylvania ceased to be a dealer in June 2005.

As of February 2, 2007 we had one ongoing VNPP (Virtual Negawatt Power Plan) program with Commonwealth Edison in northern Illinois. Under this contract we place our EnergySaver equipment in commercial and industrial Customer Host buildings at no cost to the Customer Host. In exchange for allowing us to reduce the power to their lighting system (without turning off their lights) during periods of peak energy demand, the Customer Host is allowed to operate the EnergySaver at a 3% to 5% level during non-curtailment periods. The ComEd agreed to pay us for the availability of this demand reduction and we recognize revenue under the contract over the period for which demand reduction is actually provided. As of February 2, 2007 we had installed 124 EnergySavers at 76 different Customer Host sites under these programs at a cost of \$1,267,360 (the VNPP Asset). We recognized our first revenue under the program and began amortizing the cost of the related EnergySaver units during the fourth quarter of 2005. Further shipments under these programs were postponed in late 2005 due to the high capital requirements of these programs and we are currently working with the utilities seeking to modify the programs to change them so we will be paid for delivering energy efficiency rather than energy curtailment. Primarily as a result of these decisions, during the third quarter of 2006 we evaluated the carrying value of the VNPP Asset and determined that it was impaired. As a result, we reduced the carrying value of the VNPP Asset by \$760,488, resulting in a non-cash charge to our earnings.

Competition

While there are other HVAC controllers that provide energy saving benefits similar to the eMAC, we are not aware of any competing product available at a comparable cost to the eMAC that provides the communications, remote monitoring and diagnostic features of the eMAC. Large, national control companies provide systems that can do much of what the eMAC can do, but the installed cost of such systems make them impractical for smaller applications, which is the market we are targeting with the eMAC.

There are many competitors in the energy services business, including small regional lighting retrofit companies and large national energy service companies. The large national energy service companies tend to market to large national companies and compete for large energy retrofit projects in which lighting is one piece of the total project. Parke focuses on providing lighting retrofit services to the under-served market for small to mid-sized commercial and industrial users and niche markets where installations are more difficult. In these markets Parke sells its services based on the financial return to its customers and differentiates itself through its experience and reputation for quality work and superior service.

There are a number of products on the market that directly or indirectly compete with the EnergySaver products. These competing products can be categorized into three general types:

those that convert AC to DC at a central location,

those that pulsate the power to the lighting system; and

other control products similar to the EnergySaver system.

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Products that fall into the first category convert AC to DC at a central location and do so more efficiently than it is done by the standard electronic ballast in each light fixture. The main drawback to this technology is that the transmission of DC power over any distance is generally less efficient and more dangerous than transmitting AC power. This technology also requires the rewiring of every light fixture on the circuit.

Products that pulsate the power in the lighting system turn the power off and on so quickly (120 times/second) that the lights remain on. This process, which is generally known as wave chopping, distorts the AC waveform and thereby produces harmonics in a building's electrical system that can damage other electrical components such as electric motors and electronic devices. The process also contributes to the reduction of life of lamps and ballasts in lighting fixtures.

Control products control power consumption at the lights, at the lighting circuit or at the control panel. Products that control the power at the lights or at the lighting circuit must be wired to each fixture or to each circuit, resulting in high installation cost, which makes these products less competitive from an economic perspective. The EnergySaver controls power consumption at the lighting panel, making it much simpler and less expensive to install and maintain. There are other products on the market that also control power consumption at the lighting panel, but the EnergySaver is the only product that we are aware of that offers total real-time variability of savings levels, remote communications and savings measurement and verification capabilities.

Energy engineering services such as those provided by Kapadia are also generally widely available, though not as widely available as lighting retrofits due to the skills and experience required to provide the services. The certifications held by Kapadia's staff of engineers include: Professional Engineer (PE); Certified Energy Engineer (CEM); and Certified Lighting Efficiency Professional (CLEP). To obtain these certifications require a high level of experience and demonstrated knowledge of engineering and energy engineering concepts. Kapadia differentiates itself from its competitors through its reputation for quality work and its 26 years of experience as an energy engineering firm. Most of Kapadia's business comes from repeat customers or referrals.

Manufacturing

Our EnergySaver product line is manufactured at our facilities in Elk Grove Village, Illinois, with manufacturing and assembly scaled to order. Since the manufacturing process that we are currently performing only involves the assembly of components manufactured by others, we believe there are many contract manufacturers located across the country that could assemble our EnergySaver product for us with relatively little lead time should we decide to outsource some or all of the manufacturing to contract manufacturers.

The eMAC is manufactured for us by a contract manufacturer in southern California. We believe that this contract manufacturer has sufficient capacity to handle our anticipated growth in eMAC sales for the foreseeable future. In addition, we believe that there are many contract manufacturers across the country that could manufacture the eMAC for us if for some reason our current contract manufacturer could not meet our needs.

The primary components for the EnergySaver and eMAC are sourced from multiple manufacturers. We are in continuous discussion with additional parts suppliers, seeking to ensure lowest cost pricing and reliability of supply.

During 2005, approximately 20% of our consolidated material purchases were made from four suppliers. Purchases from any one supplier will vary year-to-year depending on sales and inventory levels. None of these four suppliers sell the Company proprietary products that we could not purchase from other vendors.

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Compliance With Environmental Laws

Neither the Company's production, nor sale of its products, in any material way generate activities or materials that require compliance with federal, state or local environmental laws. Parke and Kapadia use licensed disposal firms to dispose of old lamps, lighting ballasts or other products that may contain heavy metals or other potential environmental hazards.

Research and Development

The Company, through the day-to-day use of the EnergySaver and eMAC and their components and their use at various testing sites around the country, develops modifications and improvements to its products. Total research and development costs charged to operations were approximately \$395,000, \$150,000, and \$70,000 for the years ended December 31, 2005, 2004 and 2003, respectively.

Intellectual Property

Certain technologies underlying the EnergySaver products have been patented in the U.S. and Italy by Giorgio Reverberi. A U.S. patent application was filed by Mr. Reverberi in November 1997, and a patent was issued in June 2000.

Since January 1, 1998, we, along with Mr. Reverberi and Mr. Joseph Marino, have entered into a number of agreements relating to the license of the EnergySaver technology, which grant us the exclusive license rights of Mr. Reverberi's patent of the EnergySaver technology in all of North America, Central America, South America (excluding the countries of Argentina, Brazil, Chile, Paraguay and Uruguay) and the Caribbean (except Cuba), as well as Africa (excluding the countries of Algeria, Libya, Morocco and Tunisia). Our license expires upon the expiration of Mr. Reverberi's last expiring patent, which we expect to be on or around November 2017. If either party materially breaches the license and fails to cure the breach within 180 days after notice by the other party of the breach, the other party can terminate the license. We pay Mr. Reverberi a royalty of \$200 and Mr. Marino a royalty of \$100 for each EnergySaver product we make or sell in territories in which Mr. Reverberi holds a valid patent.

We have applied for and/or received several patents on improvements we have made to the core technology developed by Mr. Reverberi. In addition, MPG has several patents on various aspects of the eMAC system. As of December 31, 2005, we had nine issued patents and three patents pending before the U.S. Patent and Trademark Office, as well as foreign patent offices. In addition we have registered three trademarks with the U.S. Trademark Office and have three additional federal trademark registrations pending.

Employees

As of February 2, 2007, we had 79 employees, of which 15 were management and corporate staff, eight were engineers, 21 were engaged in sales and marketing and 35 were engaged in field service.

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SELECTED CONSOLIDATED FINANCIAL DATA

The selected financial data set forth below as of December 31, 2005 and 2004 and for each of the three years in the period ended December 31, 2005 are derived from our audited financial statements included with this prospectus. The selected financial data set forth below for the years ended December 31, 2001 and 2000, and the balance sheet data for the three years ended December 31, 2003 have been derived from our audited financial statements and are not included with this prospectus. All of the Statement of Operations data has been revised from the original presentation in the audited financial statements to reflect the Company's Building Control and Automation segment as a discontinued operation, which was sold effective March 31, 2006. The selected financial data for the nine month periods ended September 30, 2005 and 2006 has been 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.

In the year ended December 31, 2002, we adopted FAS 142 Goodwill and Other Intangible Assets, which among other things, provides that goodwill no longer be amortized. As a result, the Company recorded no goodwill amortization during 2002, 2003, 2004 or 2005, where as it recorded approximately \$555,000 during 2001. For a detailed discussion on the application of these and other accounting policies, see note 3 in the notes to the consolidated financial statements attached as an exhibit.

Effective January 1, 2006, the Company adopted SFAS 123(R). Prior to then it accounted for employee stock options using the method of accounting prescribed by Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and the associated interpretations using the intrinsic method. Generally, no expense was recognized related to its stock options under this method because the stock options exercise price were set at the stock's fair market value on the date the options were granted. Whereas, as a result of adopting SFAS123(R) \$2,053,540 of share based compensation expense was included in the results for the first nine months of 2006.

The historical results presented below are not necessarily indicative of the results to be expected for any future period. The data set forth below should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and our financial statements, including the notes thereto, included elsewhere in this prospectus.

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	Year ended December 31,					Nine Months Ended September 30,	
	2001	2002	2003	2004	2005	2005 (unaudited)	2006 (unaudited)
Statement of Operations Data:							
Revenue	\$ 1,886,210	\$ 3,627,113	\$ 2,280,532	\$ 733,630	\$ 3,693,429	\$ 2,924,162	\$ 4,611,321
Cost of sales	1,616,467	3,273,150	1,945,554	862,366	3,691,854	2,748,311	3,474,496
Selling, general and administrative	8,150,183	5,464,950	3,921,121	4,234,239	6,078,098	4,383,158	7,957,736
Impairment loss		108,000					760,488
Operating loss	(7,880,440)	(5,218,987)	(3,586,143)	(4,362,975)	(6,076,523)	(4,207,307)	(7,581,399)
Other income (expense)	(3,396,009)	(32,920)	(354,941)	(626,049)	(544,253)	(384,180)	(3,131,109)
Loss from continuing operations	(11,276,449)	(5,251,907)	(3,941,084)	(4,989,024)	(6,620,776)	(4,591,487)	(10,712,508)
Income (loss) from discontinued operations	(1,694,628)	(1,756,020)	(1,540,858)	(170,338)	(251,962)	77,501	(21,425)
Cumulative effect of accounting change		(4,103,872)					
Net loss	(12,971,077)	(11,111,799)	(5,481,942)	(5,159,362)	(6,872,738)	(4,513,986)	(10,733,933)
Preferred Stock Dividends	(20,118,939)	(4,111,107)	(4,817,917)	(4,639,259)	(1,851,345)	(1,017,800)	(24,347,725)
Net Loss Available to Common Shareholders	\$ (33,090,016)	\$ (15,222,906)	\$ (10,299,859)	\$ (9,798,621)	\$ (8,724,083)	\$ (5,531,786)	\$ (35,081,658)

Basic and diluted loss per common share from continuing operations	\$	(15.67)	\$	(6.98)	\$	(3.90)	\$	(3.62)	\$	(2.65)	\$	(1.79)	\$	(1.83)
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Basic and diluted loss per common share		(16.52)		(7.32)		(4.58)		(3.68)		(2.73)		(1.77)		(1.83)
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Weighted average common shares outstanding (1)		2,003,203		2,080,878		2,250,766		2,660,093		3,190,664		3,124,609		19,198,805
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Balance Sheet Data:

Cash and cash equivalents	\$	5,486,073	\$	1,555,904	\$	2,467,023	\$	1,789,808	\$	4,229,150	\$	1,574,368	\$	6,825,874
Working capital (deficiency)		7,470,046		3,546,270		2,050,157		263,304		646,483		(2,604,102)		4,815,498
Total assets		16,435,863		8,908,551		7,353,627		6,479,320		17,098,974		14,110,436		27,548,721
Long-term debt, including current portion		1,434,018		1,089,791		1,348,645		1,230,353		4,980,032		986,826		580,851
Total stockholders equity		12,465,333		4,284,291		3,040,932		1,780,271		4,377,637		5,830,267		21,136,866

(1) Adjusted for 1 for 15 reverse stock split effected January 23, 2007

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the consolidated financial statements and related notes which appear elsewhere in the registration statement of which this prospectus forms a part. The discussion contains forward-looking statements within the meaning of the Private Securities Litigation Act of 1995. Such statements consist of any statement other than a recitation of historical fact and can be identified by the use of forward-looking terminology such as may, expect, anticipate, estimate or continue or the negative of such terms or other variations of such terms or comparable terminology. You are cautioned that all forward-looking statements are necessarily speculative and there are certain risks and uncertainties that could cause actual events or results to differ materially from those referred to in such forward-looking statements. We do not have a policy of updating or revising forward-looking statements and, therefore, you should not assume that our silence over time means that actual events are bearing out as estimated in such forward-looking statements.

We have a limited operating history. All risks inherent in an inexperienced enterprise are inherent in our business.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amount of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of our financial statements. Actual results may differ from these estimates under different assumptions or conditions. Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and potentially result in materially different results under different assumptions and conditions. We believe that our critical accounting policies are limited to those described below. For a detailed discussion on the application of these and other accounting policies, see note 3 in the notes to the consolidated financial statements attached as an exhibit.

Use of Estimates

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

Revenue Recognition

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

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Our MPG subsidiary often bundles contracts to provide monitoring services and web access with the sale of its eMAC hardware. As a result, these sales are considered to be contracts with multiple deliverables which at the time the hardware is delivered and installed includes undelivered services essential to the functionality of the product. Accordingly, we defer the revenue for the product and services and the cost of the equipment and installation and recognize them over the term of the monitoring contract. The monitoring contracts vary in length from 1 month to 5 years.

We have entered into agreements in which we have contracted with utilities to establish a Virtual Negawatt Power Plan (VNPP). Under these contracts, we install Energy Saver units at participating Customer Host locations, within the utility s territory. The participating Customer Hosts receive the benefit of reduced utility costs through the operation of the units. We are able to reduce electric demand requirements during periods of peak demand, providing nearly instantaneous control, measurement and verification of load reduction. The utility companies pay us for the availability of this demand reduction and we recognize revenue under these contracts over the period for which the demand reduction is provided. Revenue of \$15,781 was recognized from these contracts during the fourth quarter of 2005 and \$23,864 for the first six months of 2006. No revenue was recognized under such contracts for the years ended December 31, 2004 and 2003. The cost of the Energy Saver units currently at host locations under such VNPP programs is included in fixed assets and depreciated over the term these units will be used under the contracts.

Profit Recognition on Long-Term Contracts

We account for revenues on long-term contracts under the percentage of completion method in conjunction with the cost-to-cost method of measuring the extent of progress toward completion. Any anticipated losses on contracts are charged to operations as soon as they are determinable. Prior to the second quarter of 2005, due to our limited experience estimating the profitability on our long-term building automation and control contracts, we deferred all building automation and control contract related profits (i.e. assumed zero profit) until completion of the contract when the actual profit on the contract was known. Starting in the second quarter of 2005 we began recognizing contract related profits based on the projected profits for the contract, consistent with the AICPA s Statement of Position 81-1 (SOP 81-1).

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. The allowance is largely based upon specific knowledge of customers from whom collection is determined to be doubtful and our historical collection experience with such customers. If the financial condition of our customers or the economic environment in which they operate were to deteriorate, resulting in an inability to make payments, or if our estimates of certain customers ability to pay are incorrect, additional allowances may be required. During 2005, we increased our allowance by \$97,000 and wrote-off \$13,000. As of December 31, 2005 our allowance for doubtful accounts was approximately \$325,000, or 15.7% of the outstanding accounts receivable.

Impairment of Long-Lived Assets.

We record impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amount of those items. Our cash flow estimates are based on historical results adjusted to reflect our best estimate of future market and operating conditions. The net carrying value of assets not recoverable is reduced to fair value. Our estimates of fair value represent our best estimate based on industry trends and reference to market rates and transactions.

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We have made acquisitions in the past that included a significant amount of goodwill and other intangible assets. Under generally accepted accounting principles in effect through December 31, 2001, these assets were amortized over their estimated useful lives, and were tested periodically to determine if they were recoverable from operating earnings on an undiscounted basis over their useful lives. Effective in 2002, goodwill is no longer amortized but is subject to an annual (or under certain circumstances more frequent) impairment test based on its estimated fair value. Estimated fair value is less than value based on undiscounted operating earnings because fair value estimates include a discount factor in valuing future cash flows. There are many assumptions and estimates underlying the determination of an impairment loss, including economic and competitive conditions, operating costs and efficiencies. Another estimate using different, but still reasonable, assumptions could produce a significantly different result. As part of our 2003 and 2004 year-end assessment, we updated our long-term projections for the building automation and controls business and estimated the fair value based on the discounted current value of the expected future cash flows. We then compared the implied fair value of the goodwill to its carrying value and determined that the value of the goodwill was not impaired. In February 2006 we signed a non-binding letter of intent to sell Great Lakes Controlled Energy. To determine if our goodwill would be impaired as a result of the expected sale, we compared the carrying value of the goodwill related to Great Lakes to the expected sale price of the business and determined that the goodwill is impaired. As a result we recorded an impairment loss as of December 31, 2005 of \$242,830. It is possible that upon completion of future impairment tests, as the result of changes in facts or circumstances, we may have to take additional charges in future periods to recognize a further write-down of the value of the goodwill attributed to our acquisitions to their estimated fair values.

Material Trends and Uncertainties

From time to time changes occur in our industry or our business that make it reasonably likely that aspects of our future operating results will be materially different than historical operating results. Sometimes these matters have not occurred, but their existence is sufficient to raise doubt regarding the likelihood that historical operating results are an accurate gauge of future performance. We attempt to identify and describe these trends, events, and uncertainties to assist investors in assessing the likely future performance of the Company. Investors should understand that these matters typically are new, sometimes unforeseen, and often are fluid in nature. Moreover, the matters described below are not the only issues that can result in variances between past and future performance nor are they necessarily the only material trends, events, and uncertainties that will affect the Company. As a result, investors are encouraged to use this and other information to judge for themselves the likelihood that past performance will be indicative of future performance.

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

Changes in our senior management and on our Board of Directors. In October, 2005, Daniel Parke became a Member of our Board of Directors. In January 2006, our Chief Executive Officer for the past six years, Mr. John Mitola, resigned and was replaced by one of our Board members, Mr. David Asplund. Mr. Mitola also resigned as a director at that time. At approximately the same time, Mr. Robert Manning, the Chairman of our Board of Directors for the past 5-1/2 years announced his retirement. Mr. Manning's seat on the Board of Directors was filled by Mr. Richard Kiphart, an investor in the Company, and Mr. Kiphart was also elected to serve as our Chairman. We also recently added Messrs. William Carey, Gregory Barnum and Joseph Desmond to our Board of Directors. Mr. Parke also became our Chief Operating Officer and President on June 30, 2006. These changes in our Senior Management and Board of Directors have resulted in changes to our business plan, including the sale of Great Lakes Controlled Energy. The disposal of this business will result in a reduction in revenue during 2006. The Building Automation Controls business was responsible for approximately 25% of our 2005 revenue and posted an operating loss of \$305,497 during 2005, including a

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\$242,830 charge related to the impairment of goodwill and the allocation of corporate overhead. This business was expected to record revenue of approximately \$2 million during 2006 and little to no operating profit.

The acquisition of Maximum Performance Group. In May of 2005, we acquired Maximum Performance Group, Inc. (MPG), the manufacturer of the eMAC line of HVAC and lighting controllers. MPG was responsible for approximately 20% of our consolidated revenue for 2005 and 33% of our operating loss. We believe that MPG has the potential for significantly better performance in future periods and that the 2005 results were heavily influenced by disruptions related to the acquisition and integration with Lime Energy. MPG's products have historically had margins that are generally better than those of our existing businesses, therefore we believe its profitability should improve with increases in revenue.

Customer concentrations. We have historically relied on a small number of customers each year for a significant portion of our revenue. Seldom has a customer that represented 10% or more of our revenues in one year also represented more than 10% of our revenue in the following year. This means that we have had to find major new customers each year to replace major customers whose needs have been satisfied from the prior year. We hope that some of the changes that we are currently implementing to our sales strategy will decrease our dependence on large customers, thereby diversifying our customer base and reducing the risk associated with having to replace a customer once we have completed our contract with them. We believe that the monitoring services MPG sells will also help to mitigate this risk because they represent a base of recurring contract revenue. While this monitoring revenue only represented approximately 10% of our 2005 consolidated revenue, we believe it will continue to grow with the continued sale of eMACs.

Results of Operations

Our revenues reflect the sale of our products and services, net of allowances for returns and other adjustments. Revenues of Lime Energy and its subsidiaries are generated from the sale of products and services, the vast majority of which are sold in the U.S.

Our cost of goods sold consists primarily of materials and labor. Also included in our cost of goods sold are freight, charges from third parties for installation of our products, costs of operating our manufacturing facility, charges for potential future warranty claims, and royalty costs related to licenses of the technology used in our EnergySaver line of lighting controllers.

Sales and gross profits depend, in part, on the volume and mix of products sold during any given period. Generally, products that we manufacture have a higher gross profit margin than products that we purchase and resell.

A portion of our operating expense is relatively fixed, such as the cost of our facilities and supervisory labor. Accordingly, an increase in the volume of sales will generally result in an increase to our gross margins since these fixed expenses do not increase in direct proportion to our sales. Since the majority of the products we sell are manufactured by third parties, we believe that we can significantly increase our sales without a significant investment in fixed assets.

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Selling, general and administrative (SG&A) expenses include the following components:
direct labor and commission costs related to our employee sales force;

expenses related to our non-manufacturing management, supervisory and staff salaries and employee benefits;

commission costs related to our independent sales representatives and our distributors;

costs related to insurance, travel and customer entertainment and office supplies costs and the cost of non-manufacturing utilities;

costs related to marketing and advertising our products;

costs of outside professionals such as lawyers, accountants, and investor relations professionals;

research and development expenses;

costs related to administrative functions that serve to support the existing businesses of the Company, as well as to provide the infrastructure for future growth.

Interest expense for the most recent three month period includes the costs associated with the mortgage on our headquarters building, a note payable, capitalized leases and various auto loans. Interest expense for the nine month period ended September 30, 2006 also includes the costs and expenses associated with our working capital line and our convertible term loans, both of which were retired on June 29, 2006. Included in these costs is amortization of the debt discount on the convertible term loans and amortization of deferred financing costs related to the working capital facility.

Three Months Ended September 30, 2006 Compared to Three Months Ended September 30, 2005.

Our total revenue for the three-month period ended September 30, 2006 increased \$1,006,798 or 89.6% to \$2,130,158 as compared to \$1,123,360 for the three month period ended September 30, 2005. All of this increase was generated by our Energy Services segment, which was created with the acquisition of Parke effective June 30, 2006. Total revenue for the Energy Technology segment decreased slightly, from \$1,123,000 to \$1,110,000.

Cost of sales for the three-month period ended September 30, 2006 increased \$394,673 or 32.9% to \$1,592,613 from \$1,197,940 for the three-month period ended September 30, 2005. The increase in cost of sales was due to the increase in sales. Gross profit for the third quarter of 2006 increased \$612,125 to \$537,545 from a loss of \$74,580 in the third quarter of 2005, and the gross margin increased from a negative 6.6% in 2005 to a positive 25.2% in 2006. Both the Energy Technology and Energy Services segments contributed in approximately equal amounts to the increase in the gross profit. The improvement in gross profit in the Energy Technology segment was the result of an increase in sales of more profitable products. We believe that the gross profit should continue to increase in future periods as sales increase in both segments of our business.

SG&A for the three-month period ended September 30, 2006 increased \$2,160,589, or 119.1% to \$3,974,564 from \$1,813,975 for the three-month period ended September 30, 2005. The adoption of SFAS 123 (R) (which relates to stock-based compensation see Note 2 to the financial statements) was responsible for \$1,485,698 or 69% of the increase, while the inclusion of Parke, which was acquired on June 30, 2006, was responsible for the majority of the remaining increase. We expect our SG&A expense to increase during the balance of the year due to the acquisition of Kapadia and as we add additional sales people in an attempt to increase our sales of our products and services.

As is more fully explained in Note 8 to the financial statements, during the quarter ended September 30, 2006, we determined that the carrying value of the ComEd VNPP (Virtual Negawatt Power Plan) asset exceeded its fair value by \$760,488. In order to reduce the carrying value to the fair value we took a non-cash charge of \$760,488 during the period.

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Other income for the three-month period ending September 30, 2006 increased \$157,449, to \$79,997 from an expense of \$77,452 for the three-month period ended September 30, 2005. Interest income increased \$79,998 to \$96,877 during the most recent quarter as compared to \$16,879 earned in the same quarter during 2005. The increase in interest income was the result of increase invested cash balances and higher interest rates. Interest expense decreased \$77,451 to \$16,880 during the three months ended September 30, 2006 from \$94,331 during the same period during 2005. This decrease was the result of lower outstanding debt balances due to the retirement of our working capital line and term loans (other than the mortgage loan on our Elk Grove Village, Illinois headquarters) at the end of June 2006.

Effective March 31, 2006, we sold all of the outstanding capital stock of Great Lakes Controlled Energy Corporation to its former owners. As required by SFAS 144 we have presented the operating results for this business as discontinued operations. During the three month period ended September 30, 2005 this business recorded a loss of \$48,088.

All of the outstanding shares of Series E Convertible Preferred Stock were converted to common stock on June 29, 2006, thus there was no dividends recorded during the three month period ended September 30, 2006, as compared to \$344,000 in dividend expense during the same period in 2005.

Nine Months Ended September 30, 2006 Compared to Nine Months Ended September 30, 2005.

Total revenue for the nine-month period ended September 30, 2006 increased \$1,687,159 or 57.7% to \$4,611,321 as compared to \$2,924,162 for the nine-month period ended September 30, 2005. All of the increase is the result of contributions from MPG and Parke. MPG was acquired effective April 30, 2005, thus was only included for five of the nine months in 2005 and Parke was acquired on June 30, 2006, therefore was not included in the 2005 results at all. We expect to see continued growth in revenue as a result of these acquisitions and the recent acquisition of Kapadia.

Cost of sales for the nine-month period ended September 30, 2006 increased 26.4% to \$3,474,496 from \$2,748,311 for the same period in 2005. The increase in cost of sales was related to the increase in sales. Gross profit for the first nine months of 2006 increased \$960,974, or 546% to \$1,136,825 from \$175,851 earned in the first nine months of 2005, and the gross profit margin improved from 6.0% earned during 2005 to 24.7% for 2006. Approximately one third of the increase in the gross profit is attributable to the acquisition of Parke with the remaining increase attributable to a shift in sales in the Energy Technology segment to more profitable products.

SG&A for the nine-month period ended September 30, 2006 increased \$3,574,578 to \$7,957,736 from \$4,383,158 for the same period during 2005. The adoption of SFAS 123(R) was responsible for approximately \$2,000,000, or 56% of this increase, while the inclusion of four additional months of expense for MPG and three months of expense from Parke was responsible for approximately \$1,600,000 of the increase

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Other expense increased \$2,746,929, to \$3,131,109 from \$384,180 for the nine-month period ended September 30, 2006 and 2005, respectively. Interest expense increased \$2,830,408 to \$3,256,755 during the first nine months of 2006 from \$426,347 during the first nine months of 2005. The components of interest expense for the nine month periods ended September 30, 2006 and 2005 are as follows:

	Nine Months Ended September 30	
	2006	2005
Contractual interest	\$ 347,624	\$ 161,257
Amortization of deferred issuance costs and debt discount	1,175,970	105,090
Value of warrant		160,000
Value of adjustment in conversion price	950,865	
Prepayment penalties	516,071	
Termination of post re-payment interest obligation	266,225	
Total Interest Expense	\$ 3,256,755	\$ 426,347

Contractual interest expense (the interest on outstanding loan balances) increased \$186,367 or 116% to \$347,624 during the first nine months of 2006 from \$161,257 during the same period in 2005. The increase in contractual interest was the result of higher average outstanding balances, due in part to the issuance of the \$5 million term loan in November 2005 (which was repaid in June 2006), and higher average interest rates. Amortization of the deferred issuance costs and the debt discount related to the Laurus revolver and convertible term loans, which is included in interest expense, increased \$1,070,880 to \$1,175,970 during the first nine months of 2006 from \$105,090 during the first nine months of 2005. With the repayment of all of the Laurus loans in June 2006, we were required to recognize as interest expense the remaining unamortized balances of the capitalized issuance costs and the debt discount of \$978,525. The balance of the increase in amortization expense is related to the amortization of deferred issuances costs associated with the \$5 million term loan issued in November 2005. The 2006 interest expense also includes prepayment penalties of \$516,071 for the early repayment of the Laurus term loans and \$266,225 for the cost of terminating the obligation to pay Laurus a portion of the cash flows generated by certain VNPP projects for the next five years. Upon the closing of the PIPE Transaction and repayment of the term loans in June 2006, Laurus elected to convert the outstanding balance on the revolving note into shares of our common stock. The revolving note contained antidilution provisions which automatically adjusted the conversion price of the note to \$1.00 per share: the price at which we issued shares as part of the PIPE Transaction. Laurus would have received 59,902 shares of common stock upon conversion of the revolving note utilizing the conversion price prior to the adjustment, but as a result of this adjustment it received 943,455 shares. The market value of the 883,553 additional shares it received as a result of the adjustment was recorded as interest expense in the amount of \$950,865.

During April 2005 we issued a warrant to purchase 400,000 shares of our common stock to Laurus in exchange for its consent to a private equity issuance and the acquisition of MPG, as well as waiving its right to adjust the conversion price on its convertible term note and convertible revolving note. The warrant was valued at \$160,000 using a modified Black-Scholes option pricing model and charged to interest expense during the period.

Effective March 31, 2006, we sold all of the outstanding capital stock of Great Lakes Controlled Energy Corporation to its former owners. As required by SFAS 144 we have presented the operating results for this business as discontinued operations. During the nine months ended September 30, 2006 Great Lakes operating loss was \$21,425, compared to an operating profit of \$77,501 earned during the same period in 2005.

Preferred stock dividends for the first nine months of 2006 increased \$23,329,925 to \$24,347,725 from \$1,017,800 for the same period in 2005. We accrued dividends of \$698,000 and \$1,017,800 on our Series E Convertible Preferred Stock during the first nine months of 2006 and 2005, respectively. The dividends accrued during the first nine months of 2006 and 2005 were satisfied through the issuance of additional shares of our preferred stock.

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On June 29, 2006, in connection with the PIPE Transaction, all of the outstanding shares of Series E Convertible Preferred stock converted into shares of common stock. The Series E Preferred Stock as originally issued was convertible at \$6.67 per share into 1,574,027 shares of our common stock (adjusted for the reverse stock split), however, the Series E contained antidilution provisions which automatically reduced the conversion price of the Series E to the \$1.00 per share issuance price of common stock in the PIPE Transaction. This adjustment in the conversion price resulted in 20,074,319 additional shares being issued upon conversion of the Series E. The value of these additional shares of \$23,085,467 (valued at the market price of \$1.15 per share) was recorded as a deemed dividend during the second quarter of 2006.

During the first quarter of 2006 we were required to reduce the exercise price on warrants to purchase 4,064,830 shares of our common stock held by a preferred stock holder. The exercise price on the warrants was reduced to \$0.62 per share (\$9.30 post split) from an average exercise price of \$0.92 per share (\$13.80 post split). This was because we issued stock options to our new CEO with an exercise price of \$0.62 per share (\$9.30 post split)(which was the market price of our common stock on the date the options were issued). The warrant exercise price automatically adjusted to the same price. We compared the value of the warrants, as determined through the use of a modified Black-Scholes option pricing model, with the old exercise price to the value of the warrants with the reduced exercise price and determined that the reduction in the exercise price had increased the value of the warrants by \$266,390. Since these warrants were issued as part of a security offering the increase in value was considered to be a deemed dividend to the security holders. We recorded the deemed dividend by offsetting the dividend charge to additional paid-in-capital, without any effect on total stockholders equity. Also during 2006, a number of our common stock warrants held primarily by the former holders of our Series E Convertible Preferred Stock, contained similar antidilution provisions. Prior to the PIPE Transaction the exercise price on these warrants ranged from \$13.50 per share to \$15.00 per share (adjusted for the reverse split). The issuance of common stock in the PIPE Transaction caused the exercise price on these warrants to be automatically reduced to \$1.00 per share. We compared the value of the warrants prior to the adjustment to the value of the warrants after the adjustment, using a modified Black-Scholes Option Pricing Model, and determined that the value had increased by \$297,868. This increase in value was treated as a deemed dividend and recorded during the second quarter of 2006 by offsetting the dividend charge to additional paid-in-capital, without any effect on total stockholders equity.

As the result of the conversion of the Series E Convertible Preferred Stock we will not be accruing dividends on the Series E Preferred Stock in future periods.

Twelve-Month Period Ended December 31, 2005 Compared With the Twelve-Month Period Ended December 31, 2004

Revenue. Our revenue increased \$2,959,799, or 403% to \$3,693,429 during the year ended December 31, 2005 from \$733,630 during the year ended December 31, 2004. Approximately \$950,000 or 39% of the increase was due to the acquisition of Maximum Performance Group in May 2005. EnergySaver related sales increased approximately \$1,700,000 during 2005 over the year earlier period as the result of increased EnergySaver sales. Unit sales of EnergySavers increased 198% from 67 units in 2004 to 200 units in 2005. One customer was responsible for a significant portion of this increase. We are continuing to ship product to this customer into 2006, but at a reduced level. Approximately \$325,000 of the increase in revenue was due to a short term utility consulting project completed in May 2005. Revenue for 2005 also included VNPP curtailment services of approximately \$16,000. We hope to see continued improvement in EnergySaver and eMAC sales as a result of a recent restructuring of our sales strategy that places an increase emphasis on commercial sales.

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Gross Profit. Our consolidated gross profit increased \$130,311 in 2005 to \$1,575 from a loss of \$128,736 in 2004. The increase in gross profit was due to a consulting assignment completed in May 2005 by the Energy Technology segment, and to improved margins on EnergySaver sales primarily as the result of increased volume. The profit on the consulting assignment is not likely to be repeated in future periods. Our margins on EnergySaver and eMAC sales are expected to improve during 2006 as sales of these products increase.

SG&A Expenses. Selling, general and administrative expenses increased \$1,843,859 or 44% to \$6,078,098 during 2005 from \$4,234,239 in 2004. The acquisition and integration of Maximum Performance Group in May 2005 was responsible for approximately \$1,840,000 of the increase. We expect SG&A to increase moderately during 2006 as the result of a full twelve months of expense from Maximum Performance Group and the implementation of FAS 123 (R) which requires that we expense employee options beginning in the first quarter of 2006.

Other Non-Operating Income (Expense). Other non-operating expense is comprised of interest expense and interest income. Interest expense declined \$45,564 to \$602,990 during 2005 from \$648,554 during 2004. Amortization of the deferred issuance costs and debt discount related to the Laurus revolver and convertible term loans, which are included in interest expense, declined \$409,026 to \$165,411 for 2005 from \$574,437 during 2004. The deferred issuance costs and debt discount are being amortized using the effective interest method, thus decline as the outstanding balance on the related term loan is repaid or converted. During January 2004, Laurus converted a portion of its term loan resulting in accelerated recognition of \$193,000 in amortization expense. No such conversions occurred during 2005. Other interest expense increased \$203,149 primarily as a result of borrowings under the revolver, a new \$5,000,000 term loan entered into in late November 2005, and higher interest rates. There were no borrowings under the revolver during 2004. During the second quarter of 2005 we issued a 5 year warrant to purchase 26,667 shares of our common stock at \$15.00 per share to Laurus in exchange for its consent and waiver to permit us to complete a sale of common stock and warrants to a group of investors for gross proceeds of \$5,625,000 and to acquire MPG. This warrant was valued at \$160,000 using a modified Black-Sholes option pricing model and the value was charged to interest expense during the period. Interest income increased \$36,232 to \$58,737 during 2005 from \$22,505 earned in 2004. The increase in interest income was due to higher average invested cash balances and increases in the interest rates paid on the invested balances.

Discontinued Operations. Effective March 31, 2006, we sold our Building Controls and Automation business its former owners. As required by SFAS 144 we have presented the operating results for this segment as discontinued operations. During 2005 this segment reported a loss of \$251,962 as compared to a loss of \$170,338 in 2004. The 2005 results include a goodwill impairment charge of \$242,830.

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Preferred Stock Dividends. The dividend expense recognized during 2005 and 2004 was comprised of the following:

<i>Year ended December 31,</i>	2005	2004
Accrual of dividend on Series A Convertible Preferred	\$	\$ 540,705
Accrual of Series C Preferred dividend		53,206
Accrual of Series D Preferred dividend		35,932
Accrual of Series E Preferred dividend	1,366,900	1,006,937
Deemed dividend associated with beneficial conversion price on shares issuable in satisfaction preferred dividends		1,127,021
Deemed dividend associated with the redemption and exchange of outstanding preferred stock		1,860,458
Deemed dividend associated with change in the expiration date of warrants to purchase shares of preferred stock		15,000
Deemed dividend associated with change in the exercise price of warrants to purchase shares of common stock	484,455	
Total	\$ 1,851,345	\$ 4,639,259

Our dividend expense for 2005 declined \$2,787,914 or 60.1% to \$1,851,345 from \$4,639,259 in 2004. We accrued dividends of \$1,366,900 and \$1,636,780 on our Convertible Preferred Stock during 2005 and 2004, respectively. This decline in accrued dividends was the result of the reduction in the number of preferred shares outstanding and a reduction in the dividend rate that resulted from the redemption and exchange effected in March 2004. The dividends accrued during 2005 and 2004 were satisfied through the issuance of 13,669 shares of preferred stock (convertible into 91,127 shares of common stock) and 16,368 shares of preferred stock (convertible into 109,120 shares of common stock), respectively. We were required to recognize a non-cash deemed dividend of \$1,127,021 during 2004 due to the fact that the conversion price on these dividend shares was lower than the market price of our common stock on the date of issue.

On April 28, 2005 we issued to five (5) institutional investors, for an aggregate gross purchase price of \$5,625,000, 416,667 shares of the Company's common stock and 42 month warrants to purchase 208,333 additional shares of common stock at \$15.75 per share. Due to the sale price of the securities issued as part of this transaction we were required to adjust the exercise price on warrants to purchase 336,989 shares if its common stock held by two investors who had participated in earlier equity offerings. The exercise prices on these warrants were reduced from \$36.30 and \$15.00, respectively to \$13.50. We compared the value of the warrants with the old exercise price to the value of the warrants with the reduced exercise price, through the use of a modified Black-Scholes option pricing model, and determined that the reduction in the exercise price had increased the value of the warrants by \$484,445. Since these warrants were issued as part of a security offering the increase in value is considered to be a deemed dividend to the security holders. We recorded the deemed

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dividend by offsetting charges and credits to additional paid-in capital, without any effect on total stockholders equity.

As part of the redemption and exchange completed in March 2004, shares of old preferred stock were exchanged for shares of the new Series E Preferred Stock at the rate of 10 shares of old preferred for each share of new Series E preferred stock. Additionally, each share of old preferred stock was convertible into 10 shares of common stock, whereas each share of new Series E Preferred Stock is convertible into 6.67 shares of common stock. Despite the fact that we believe the redemption and exchange transaction was favorable for the Company and its common stockholders (see note 17(k) to the financial statements), we were required to record a non-cash deemed dividend on the transaction of \$1,860,458. For accounting purposes the transaction was viewed as a redemption for cash and shares of Series E Preferred Stock. The non-cash deemed dividend was determined by comparing the fair value of the consideration given (the cash and the market value of the Series E Preferred Stock) to the carrying value of the old preferred stock that was redeemed. The fair value of the consideration given exceeded the carrying value of the old preferred primarily due to the fact that the market price of our common stock was higher on the day the redemption and exchange transaction closed than it was when the shares of the old preferred stock were originally issued.

We also incurred a \$15,000 deemed dividend during 2004 when we agreed to extend the expiration date on warrants to purchase shares of our Series E Preferred Stock from September 30, 2004 to December 31, 2004. We agreed to extend these warrants to permit holders who participated in the redemption and exchange more time to exercise their warrants without violating the short swing trading rules of section 16(b) of the Securities Act of 1934 or our insider trading policy, which prohibits the trading of our securities during certain blackout periods prior to the filing of our financial statements.

As is more fully described in note 17(k) to our financial statements, we completed a redemption and exchange offering on March 22, 2004 in which we redeemed 538,462 shares of our outstanding Series A, Series C and Series D Convertible Preferred Stock (the Old Preferred), and exchanged the remaining 2,104,509 shares of Old Preferred into 210,451 shares of a new Series E Preferred Stock at the rate of 10 shares of Series E Preferred Stock for each share of Old Preferred. The Old Preferred Stock carried a dividend rate of 10% payable at the Company's election in cash or in additional shares of Preferred Stock during the first three years following issuance. After the third anniversary of issuance we were required to pay all dividends in cash and the dividend rate was to increase by 1/2% every six months until it reached 15%, where it would remain until the shares were converted or redeemed. The Series E Preferred Stock carries a 6% dividend that is payable at the Company's election in cash or additional shares of Series E Preferred Stock for as long as the shares remain outstanding. The reduction in the number of outstanding shares of preferred stock, in combination with the reduction in the dividend rate, significantly reduces the dilutive effect of the payment-in-kind dividend on our preferred stock for periods after March 22, 2004.

Twelve-Month Period Ended December 31, 2004 Compared With the Twelve-Month Period Ended December 31, 2003

Revenue. Our revenue declined \$1,546,902 or 68% to \$733,630 during the year ended December 31, 2004 from \$2,280,532 during the year earlier period. Energy Saver unit sales declined 69.1% from 217 units in 2003 to 67 units during 2004 (excluding units shipped under the ComEd VNPP program). The decline in EnergySaver related revenue was directly attributable to our decision to focus on utility programs such as the ComEd and Pacificorp VNPP programs, rather than on commercial sales as we had in past years. As of December 31, 2004, we had shipped 89 EnergySavers to 52 customer hosts under the ComEd program, but we had not recognized revenue related to this program pending completion of an amendment to the existing agreement with ComEd. This amendment was never completed due to a delay in approval of regulatory changes necessary to implement portions of the amendment.

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The ComEd VNPP is structured as a service agreement with a 13 year term in which Lime Energy will provide up to 50 MWs of curtailment capacity to ComEd at a fixed price per kilowatt of installed capacity, payable quarterly in arrears whether the capacity is used or not as the capacity is installed. We will recognize revenue and expense under the ComEd program over the life of the contract. The PacifiCorp program is similar to the existing ComEd contract, as a result, revenue and expenses will be recognized over the 10-year term of the contract. Both contracts are structured such that there are no penalties for delivering less than the targeted curtailment capacities, but we will only be compensated for the actual curtailment capacity delivered.

Gross Profit. Our consolidated gross profit declined \$463,714 to a loss of \$128,736 during 2004, as compared to \$334,978 earned during 2003. The decline in profitability was due primarily to the decline in revenue and the shift in focus to our utility programs.

SG&A Expenses. Selling, general and administrative expenses increased \$313,118 or 8% to \$4,234,239 in 2004 from \$3,921,121 in 2003. The increase in SG&A expense was primarily due to legal costs related to an arbitration we were involved in with a dealer which contributed to a \$640,000 increase in legal expenses during 2004. If it were not for this legal expense our SG&A would have declined year over year as a result of reductions in labor costs, sales commissions to third party dealers and distributors and travel and entertainment expenses. The dealer arbitration was settled in February 2005.

Other Non-Operating Income (Expense). Other non-operating expense is comprised of interest expense and interest income. Interest expense increased \$283,302 to \$648,554 during 2004 from \$365,252 in 2003. Almost all of the increase in interest expense during 2004 was due to a \$268,815 increase in amortization of deferred issuance costs and the original issue discount. Interest expense included amortization expense totaling \$574,437 for 2004 as compared to \$305,622 for 2003. Interest income increased \$12,194 or 118.3% to \$22,505 for 2004 as compared to \$10,311 for 2003. The increase in interest income was the result of higher interest rates earned on invested balances and higher average invested balances.

Discontinued Operations. During 2003 we agreed to sell substantially all of the assets and to transfer most of the liabilities of our Power Management segment to a group of investors that included members of the segment's management. The sale closed on June 3, 2003, effective as of May 31, 2003. As required by SFAS 144 we have presented the operating results as well as the loss on disposal for this segment as discontinued operations. Also, effective March 31, 2006, we sold our Building Controls and Automation business to its former owners. The operating results for this business are also included in the loss from operations of discontinued operations. During the twelve-month period ended December 31, 2003 the operating loss for these two segments totaled \$776,710 and in addition, we recognized a \$764,148 loss on the disposal of the Power Management segment during 2003.

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Preferred Stock Dividends. The dividend expense recognized during 2004 and 2003 was comprised of the following:

<i>Year ended December 31,</i>	2004	2003
Accrual of dividend on Series A Convertible Preferred	\$ 540,705	\$ 2,253,978
Accrual of Series C Preferred dividend	53,206	219,712
Accrual of Series D Preferred dividend	35,932	77,689
Accrual of Series E Preferred dividend	1,006,937	
Deemed dividend associated with beneficial conversion price on shares issuable in satisfaction of preferred dividends	1,127,021	1,879,554
Deemed dividend associated with beneficial conversion feature of Series D Preferred stock		386,984
Deemed dividend associated with the redemption and exchange of outstanding preferred stock	1,860,458	
Deemed dividend associated with change in the expiration date of warrants to purchase shares of preferred stock	15,000	
Total	\$ 4,639,259	\$ 4,817,917

Our dividend expense for 2004 declined \$178,658 or 3.7% to \$4,639,259 from \$4,817,917 for 2003. We accrued dividends of \$1,636,780 and \$2,551,379 on our Convertible Preferred Stock during 2004 and 2003, respectively. This decline in accrued dividends was the result of the reduction in the number of preferred shares outstanding and a reduction in the dividend rate that resulted from the redemption and exchange effected in March 2004. Also contributing to the decline was a reduction in the number of preferred shares outstanding resulting from the voluntary conversion of shares of preferred stock into 130,447 shares of common stock. The dividends accrued during 2004 and 2003 were satisfied through the issuance of 16,368 shares of preferred stock (convertible into 109,120 shares of common stock) and 255,138 shares of preferred stock (convertible into 170,092 shares of common stock), respectively. We were required to recognize non-cash deemed dividends of \$1,127,021 and \$1,879,554 during 2004 and 2003, respectively, due to the fact that the conversion price on these dividend shares was lower than the market price of our common stock on the date of issue. As part of the redemption and exchange completed in March 2004, shares of Old Preferred stock were exchanged for shares of the Series E Preferred Stock at the rate of 10 shares of Old Preferred for each share of new Series E preferred stock. Additionally, each share of Old Preferred stock was convertible into 0.67 shares of common stock, whereas each share of new Series E Preferred Stock is convertible into 6.67 shares of common stock. The decline in this deemed dividend is primarily the result of the reduction in the difference between the market price of our common stock and the conversion price of the dividend shares on the date of issuance of these dividend shares. In addition, despite the fact that we believe the redemption and exchange transaction was favorable for the Company and its common stockholders (see note 17(k) to the financial statements), we were required to record a non-cash deemed dividend on the transaction of \$1,860,458. For accounting purposes the transaction was viewed as a redemption for cash and shares of Series E Preferred stock. The non-cash deemed

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dividend was determined by comparing the fair value of the consideration given (the cash and the market value of the Series E Preferred Stock) to the carrying value of the preferred stock that was redeemed. The fair value of the consideration given exceeded the carrying value of the existing preferred primarily due to the fact that the market price of our common stock was higher on the day the redemption and exchange transaction closed than it was when the shares of the Old Preferred stock were originally issued. We also incurred a \$15,000 deemed dividend during 2004 when we agreed to extend the expiration date on warrants to purchase shares of our Series E Preferred stock from September 30, 2004 to December 31, 2004. We agreed to extend these warrants to permit holders who participated in the redemption and exchange more time to exercise their warrants so that if they chose to exercise they could do so without violating the short swing trading rules of section 16(b) of the Securities Act of 1934 or our insider trading policy, which prohibits the trading of our securities during certain blackout periods prior to the filing of our financial statements. Dividend expenses for 2003 also included \$386,984 of non-cash deemed dividends associated with the issuance of the Series D Convertible Preferred Stock. Again this was due to the fact that the conversion price on the Series D was lower than the market price when the shares of Series D were issued.

Liquidity and Capital Resources

During the twelve-month period ended December 31, 2005 we incurred a net loss of \$6.9 million and used \$7.0 million of cash for operating activities. Primarily as a result of our continuing losses and lack of liquidity our independent registered public accounting firm modified their opinion on our December 31, 2005 Consolidated Financial Statement to contain a paragraph wherein they expressed a substantial doubt about our ability to continue as a going concern. As described below, we have taken steps to improve our current liquidity and provide the growth capital necessary to fund our plan for 2006 and for future growth. Our efforts to raise additional capital are discussed further below.

As of September 30, 2006 we had cash and cash equivalents of \$6,825,874 compared to \$4,229,150 on December 31, 2005. Our debt obligations as of September 30, 2006 consisted of a mortgage of \$535,000 on our facility in Elk Grove Village Illinois, vehicle loans of \$45,186, capitalized leases of \$665 and a demand note payable to a shareholder of \$150,000.

Our principal cash requirements are for operating expenses, including employee costs, the costs related to research and development, advertising costs, the cost of outside services including those providing accounting, legal, engineering and consulting services, rent, the funding of inventory and accounts receivable, and capital expenditures and the costs of servicing our outstanding debt. We have financed our operations since inception through the private placement of our common stock and preferred stock and through various secured and unsecured loans.

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

<i>Nine months ended September 30,</i>	2006	2005
Net cash used in operating activities	\$ (4,335,193)	\$ (5,117,933)
Net cash used in investing activities	(4,043,271)	(2,114,761)
Net cash provided by financing activities	10,975,188	7,017,254
Net Increase (Decrease) in Cash and Cash Equivalents	2,596,724	(215,440)
Cash and Cash Equivalents, at beginning of period	4,229,150	1,789,808
Cash and Cash Equivalents, at end of period	\$ 6,825,874	\$ 1,574,368

Table of Contents**Nine Months Ended September 30, 2006 Compared to Nine Months Ended September 30, 2005.**

Net cash increased \$2,596,724 during the first nine months of 2006 as compared to decreasing \$215,440 during the same period in 2005.

Operating Activities

Cash consumed by operating activities decreased \$782,740 or 15% to \$4,335,193 during the first nine months of 2006 as compared to consuming \$5,117,933 during the same period in 2005. Cash used to fund the net loss before changes in working capital, increased \$620,794 or 17%, to \$4,325,001 during the first nine months of 2006 from \$3,704,207 during the first nine months of 2005. This increase was due to increases in SG&A and interest expense.

Changes in working capital (adjusted for business acquisitions and disposals) consumed cash of \$10,192 during the first nine months of 2006 as compared to consuming cash of \$1,413,726 during the first nine months of 2005. During the first nine months of 2006, reductions in accounts payable and accrued expenses were largely offset by declines in accounts receivable, inventories and the advances to suppliers. The decline in accounts receivable was the result of an improvement in collections, while a deliberate effort to reduce our inventories led in part to the reduction in inventory balances. During 2005, approximately \$900,000 was used to satisfy liabilities assumed as part of the acquisition of MPG, including accounts payable and accrued expenses. Increases in inventory and reductions in accounts payable, accrued expenses and deferred revenue at our other businesses also contributed to the increase in cash used for working capital purposes. The inventory increase was related to jobs we were working to complete before the end of the year. The reduction in accounts payable and deferred revenue was the result of completion of the long-term contract in our building automation controls segment. Accrued expenses declined as we paid certain accrued liability during the first half of 2005. These uses of cash were partially offset by a decline in our accounts receivable as we received payment during the first nine months of 2005 for the building automation control projects completed during the fourth quarter of 2004 and first quarter of 2005.

Investing Activities

Cash used in investing activities increased \$1,928,510 to \$4,043,271 during the nine-month period ended September 30, 2006, from \$2,114,761 for the same period in 2005. As part of the June 30, 2006 acquisition of Parke we paid the selling stockholder \$2.72 million in cash and incurred expenses related to the transaction of \$134,680. This was partially offset by cash balances of \$1,710 acquired as part of the transaction. Cash used to fund the Kapadia acquisition included \$1,106,064 for the cash portion of the acquisition consideration and \$18,415 for legal expenses, offset by \$47,329 of cash in Kapadia's bank accounts on the date of acquisition. Also during 2006 we sold all of the stock of Great Lakes Controlled Energy Corporation to the former owners of that company. Great Lakes' cash balances of \$83,586 were transferred with the sale of the company. During 2005 we acquired MPG, which closed in May 2005. We paid the selling MPG stockholders \$1,643,525 in cash and incurred \$137,386 in transaction related costs. This was partially offset by cash balances of \$136,492 acquired as part of the transaction. Purchases of property and equipment declined \$440,777 largely due to reduced rate of investment in assets associated with the ComEd Virtual Negawatt Power Plant (VNPP).

Financing Activities

Financing activities generated cash of \$10,975,188 during the first nine months of 2006 as compared to \$7,017,254 during the first nine months of 2005. In June 2006 we raised \$17,875,000 in gross proceeds through the sale of our common stock, while incurring \$101,162 in costs related to the issuance. We used \$5,038,030 million of the proceeds to pre-pay the principal on two Laurus convertible term loans and Laurus converted \$943,455 outstanding on the revolving note to common stock. Also during 2006 we used \$1,056,545 to pay down our revolver, \$304,075 for scheduled principal payments and \$400,000 to pay off the balance on Parke's revolver.

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During the first nine months of 2005, we generated cash of \$5,625,000 through the issuance of common stock and warrants to a group of investors and \$2 million through borrowing on our line of credit. This was partially offset by issuance costs of \$216,787 and scheduled principal payments on our various loans of \$390,959.

LIQUIDITY

Our primary sources of liquidity are our available cash reserves. As of September 30, 2006 our cash balance was \$6,825,874.

Our ability to continue the development, manufacturing and expansion of sales of our products and services will require the continued commitment of significant funds. The actual timing and amount of our future funding requirements will depend on many factors, including the amount and timing of future revenues, the level and amount of product marketing and sales efforts, the magnitude of research and development, and our ability to improve margins on our products.

During the last five years we have raised net proceeds of approximately \$60 million through the issuance of shares of our common and preferred stock, which has allowed us to continue to execute our business plan. Most of these funds have been consumed by operating activities, either to fund our losses, for working capital requirements or for acquisitions. In an attempt to move the Company to a position where it can start to generate positive cash flow our management has set the following key objectives for 2006:

Focus on increasing the commercial sales of our products and services. In June 2006 we acquired Parke Industries and as part of this acquisition Dan Parke became our President and Chief Operating Officer. During the more than 7 months since, Dan has spent a great deal of time and effort expanding, training and integrating the sales and marketing staffs of our three companies (now four with the addition of Kapadia). His goal was to have at least 20 fully trained sales people on our staff by the end of 2006, each with the ability to sell \$1 million to \$2 million annually. We believe that this has been achieved and, if we are correct we believe we will begin to see a significant increase in revenue beginning in the first quarter of 2007.

Expand and improve the product line through internal development or acquisition. An expanded product line would allow us to offer additional solutions to our customers, thereby increasing the value of each customer relationship. We have recently begun an internal R&D process to improve our existing products in order to expand their markets, reduce their costs and extend their useful lives. We are also constantly evaluating acquisition opportunities with the view toward adding new products and services to our product line and expanding our geographic market.

Aggressively manage our costs in order to conserve cash. We have made some progress in reducing our costs during the last several years, but we plan to focus on eliminating redundant operations and leveraging the synergies available as a result of the acquisition of MPG, Parke and Kapadia to further reduce our costs.

Sell our Building Automation Controls business. This sale, which was completed effective March 31, 2006 will allow us to focus exclusively on the sale of our Energy Technology and Energy Services products and services and is expected to reduce the cash consumed in future periods.

Secure additional capital to continue to fund operations until the business turns cash flow positive. The PIPE Transaction that closed in June 2006 satisfied this objective. While we may be able to raise additional capital through the recently announced a rights offering, the purpose of the rights offering is primarily to allow our stockholders the opportunity to reduce some of the dilution in ownership sustained as a result of the PIPE Transaction. We hope that the capital raised this year will be sufficient

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to carry us to the point that our business begins to generate positive cash flow, thereby alleviating the need to raise additional capital in the future.

We believe that if we are successful in achieving these priorities we should have sufficient liquidity to allow us to operate until our operations turn cash flow positive. If we are not able to achieve some or all of these priorities we may begin to experience a liquidity shortage sometime in the future which could force us to scale back our growth plans, or, in the worst case, cease operations.

If we raise additional capital in future periods (which may require stockholder approval), our existing stockholders will likely experience dilution of their present equity ownership position and voting rights, depending upon the number of shares issued and the terms and conditions of the issuance. Any new equity securities could have rights, preferences or privileges senior to those of our common stock.

Contractual Obligations

Our obligations to make future payments under contracts as of December 31, 2005 were as follows:

	Total	Payments due by period			More than 5 years
		Less than 1 year	1 to 3 years	3 to 5 years	
Contractual Obligations					
Long-term debt (1)(2)	\$ 5,873,702	\$ 654,695	\$ 1,578,657	\$ 3,640,350	\$
Capital leases	4,739	4,386	353		
Operating leases	336,358	78,753	134,506	123,099	
Employment agreements	525,000	225,000	300,000		
Total	\$ 6,739,799	\$ 962,834	\$ 2,013,516	\$ 3,763,449	\$

(1) Excludes floating rate interest on the long-term debt. Interest payments required during 2006, based on the debt outstanding at December 31, 2005 and the then current interest rates, are projected to be \$515,000.

(2) On June 29, 2006 we repaid the convertible term loans which represented

\$5,291,790 of the long term debt obligations and \$472,000 of the projected future interest expense as of December 31, 2005.

Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109*, which establishes that the financial statement effects of a tax position taken or expected to be taken in a tax return are to be recognized in the financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. FIN 48 is effective for fiscal years beginning after December 15, 2006. The adoption of FIN 48 is not expected to have a material impact on our results of operations or our financial position.

In September 2006, the SEC staff issued Staff Accounting Bulletin No. 108 (SAB 108), *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*. SAB 108 was issued in order to eliminate the diversity of practice in how public companies quantify misstatements of financial statements, including misstatements that were not material to prior years' financial statements. We will initially apply the provisions of SAB 108 in connection with the preparation of our annual financial statements for the year ending December 31, 2006. We have evaluated SAB 108 and do not believe it will have any impact on our financial position and results of operations.

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Quantitative and Qualitative Disclosures About Market Risk

The only significant exposure the Company has to market risk is the risk of changes in market interest rates. The interest rates on the Company's mortgage is variable and changes with changes in the prime rate. The interest rate on the mortgage is equal to the prime rate plus $\frac{1}{2}\%$. As of December 31, 2006, the prime rate was 8.25%. If the prime rate were to increase 1 percentage point, the aggregate annual interest cost on the mortgage, term loans and revolving loan would increase by approximately \$5,200.

DESCRIPTION OF PROPERTY

Our headquarters and the EnergySaver system production facility are located at 1280 Landmeier Road in Elk Grove Village, Illinois. This facility is approximately 13,000 square feet and houses the corporate headquarters, manufacturing operations and warehouse. We acquired this facility in August 1998 with a combination of stock and cash. The cash portion of the purchase price was financed through a mortgage on the building. The mortgage was refinanced in December 2005, bears interest at the rate of prime (currently 8.25%) plus 0.5%, and is payable in monthly installments of \$3,000 plus interest, until a final balloon payment which is due on February 2007. There is no penalty for prepayment of the mortgage. As of November 28, 2006, the outstanding principal amount of the mortgage was \$529,000.

On May 3, 2005, we acquired Maximum Performance Group, Inc (MPG). MPG currently leases a 2,800 square foot office in New York City and a 3,100 square foot office in San Diego, California. The New York office lease has a term of five years and will expire in September 2010. The San Diego lease expired during 2005 and is currently operating on a month to month basis with a 90 day termination notice requirement.

On June 29, 2006, we acquired Parke P.A.N.D.A. Corporation (now known as Parke Industries, LLC) (Parke). Parke leases 5,000 square foot office in Glendora, California. The lease which expires on December 31, 2009 provides for monthly rent of \$3,500, increasing 3% on the first of each year beginning on January 1, 2007. The building is owned by the former stockholder of Parke, Daniel Parke, who is currently Lime Energy's President, Chief Operating Officer and a Director.

On September 26, 2006, we acquired Kapadia Consulting, Inc. (now known as Kapadia Energy Services, Inc.), effective September 27, 2006. Kapadia leases a 2,000 square foot office in Peekskill, NY and a 918 square foot office in Ventura, California. The New York lease expired in 2000 and is operating on a month to month basis. The California lease expires on October 31, 2007.

We believe that the space and location of our current facilities in combination with the current and planned outsourcing of a portion of our manufacturing will be sufficient to reach a level of production projected for the current year. See Manufacturing under Description of Our Business.

Table of Contents**CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

Set forth below is a description of the Company's transactions with the Selling Stockholders during the past three (3) years. All share quantities and exercise prices in the following discussion have been adjusted to reflect the 1 for 15 reverse split of the Company's common stock, effective January 23, 2007.

On March 19, 2004, in a private placement pursuant to Regulation D under the Securities Act of 1933, as amended (the "1933 Act"), the Company entered into a securities purchase agreement with Security Equity Fund, SBL Fund V, Security Mid Cap Fund, and SBL Fund J, whereby the Company issued to such purchasers, in exchange for \$11,000,000 in gross proceeds, a package of securities that included 333,333 shares of the Company's common stock and 5 year warrants to purchase 116,667 additional shares of common stock at \$36.30 per share. The warrants contain anti-dilution provisions that adjust the exercise price if the Company issues shares of common stock at a price below the lower of the exercise price or the market price at the time. A breakdown of the securities sold is as follows:

Investor	Common Stock	Common Stock Warrants	Purchase Price (\$)
Security Equity Fund, Mid Cap Value Series	84,333	29,517	2,783,000
SBL Fund Series V	66,667	23,333	2,200,000
Security Mid Cap Growth Fund	59,333	20,767	1,958,000
SBL Fund Series J	123,000	43,050	4,059,000
Total	333,333	116,667	11,000,000

Also on March 19, 2004, the Company entered into a Redemption and Exchange Agreement with the holders of its outstanding Series A Convertible Preferred Stock, Series C Convertible Preferred Stock and Series D Convertible Preferred Stock (collectively, the "Old Preferred Stock") under which the Company agreed to redeem 35,897 shares of Old Preferred Stock at a price of \$195 per share (the "Redemption") and to exchange shares of its newly authorized Series E Convertible Preferred Stock (the "Series E Preferred") for all remaining outstanding shares of Old Preferred Stock (the "Exchange") on a 1 for 10 basis (one share of Series E Preferred exchanged for 10 shares of Old Preferred Stock). The Company used \$7 million of the proceeds from the issuance of securities to Security Equity Fund, SBL Fund V, Security Mid Cap Fund, and SBL Fund J to accomplish the Redemption.

Under the Redemption and Exchange transaction, on March 22, 2004 the Company redeemed 35,897 shares of its outstanding Old Preferred Stock (which were convertible into 358,975 shares of common stock) at a price equivalent to \$19.50 per common share, and exchanged 210,451 shares of the new Series E Preferred for the remaining 2,104,509 outstanding shares of the Old Preferred Stock. Following closing of the Redemption and Exchange, no shares of Series A Preferred, Series C Preferred or Series D Preferred remained outstanding. Outstanding warrants to acquire shares of Series D Preferred held by David Asplund, Cinergy Ventures II, LLC, John Thomas Hurvis Revocable Trust, Richard Kiphart and SF Capital Partners Ltd. were exchanged for warrants to purchase shares of Series E Preferred on a 1 for 10 basis (each warrant to purchase 10 shares of Series D Preferred was exchanged for a warrant to purchase 1 share of Series E Preferred). Except for the exercises described below, all such Series E Preferred Warrants expired on December 31, 2004 unexercised.

Each share of the Series E Preferred was originally convertible into 6.67 shares of Common Stock and had a liquidation preference of \$200 per share. The Series E Preferred carried a dividend rate of 6% per annum, which was payable, at the Company's option, in either cash or in additional shares of Series E Preferred. Dividends were payable at the end of each calendar quarter. No dividends on the Series E Preferred were ever paid in cash; all dividends were paid by issuing additional shares of Series E Preferred and are described below.

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A breakdown of the Redemption and Exchange with respect to the Selling Stockholders is as follows:

Investor	Preferred Shares Exchanged (1)	Series E Shares Issued	Preferred Shares Redeemed (1)	Investor Proceeds from Redemption (\$)	Series E Warrants Issued
David Asplund	29,344	2,934	0	0	94
Augustine Fund LP	145,397	14,540	0	0	0
Cinergy Ventures II	300,853	30,085	168,663	2,192,619	1500
John Donohue	25,090	2,509	0	0	
John Thomas Hurvis Revocable Trust	28,414	2,841	15,930	207,090	94
Richard Kiphart	709,438	70,944	0	0	1313
Leaf Mountain Co.	207,463	20,746	116,307	1,511,991	0
SF Capital Partners Ltd.	234,758	23,476	0	0	750

(1) Includes shares paid in satisfaction of dividends accrued through March 19, 2004

On June 16, 2004, Mr. David Asplund exercised his warrant to purchase 94 shares of Series E Preferred (convertible into 627 shares of common stock) at a cost of \$100 per Series E Preferred share.

On December 1, 2004, the John Thomas Hurvis Revocable Trust exercised its warrant to purchase 94 shares of Series E Preferred (convertible into 627 shares of common stock) at a cost of \$100 per Series E Preferred share.

On December 27, 2004, John Donohue exercised a warrant to purchase 1,500 shares of Series E Preferred (convertible into 10,000 shares of common stock) at a cost of \$100 per Series E Preferred share. Mr. Donohue purchased this warrant from Cinergy Ventures II, LLC in a private transaction which the Company was not a party to.

On December 28, 2004, Richard Kiphart exercised his warrant to purchase 1,312 shares of Series E Preferred (convertible into 8,747 shares of common stock) at a cost of \$100 per Series E Preferred share.

On January 25, 2006, the Company issued a warrant to Bristol Capital Ltd. to purchase 10,000 shares of its common stock as partial payment for services. The warrant has an exercise price of \$15.45 per share and expires on January 25, 2008.

On February 10, 2005, the Company issued a five year warrant to purchase 2,000 shares of common stock at \$15.45 to Delano Group Securities, LLC (Delano), a company owned by Mr. David Asplund, one of the Company's directors at that time (and, since January 23, 2006, the Company's CEO) pursuant to an agreement to provide investment banking services.

On April 28, 2005, in a private placement pursuant to Regulation D under the 1933 Act, the Company issued to five institutional investors which are not Selling Stockholders and John Thomas Hurvis Revocable Trust, a Selling Stockholder, for an aggregate gross purchase price of \$5,625,000, 416,667 shares of its common stock and 42 month warrants to purchase 208,333 additional shares of common stock at \$15.75 per share. Delano and Mr. David Valentine acted as advisors to the Company with respect to this transaction. The Company paid Delano \$16,250 and 3,333 shares of common stock and paid Mr. Valentine 3,333 shares of common stock for their services. The shares issued to Delano and Mr. Valentine were issued pursuant to the Company's 2001 Incentive Stock Plan. John Thomas Hurvis Revocable Trust acquired the following securities for an aggregate purchase price of \$125,000 in such transaction:

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Investor	Common Stock	Common Stock Warrants	Purchase Price (\$)
John Thomas Hurvis Revocable Trust	9,259	4,630	125,000

On May 3, 2005, pursuant to an Agreement and Plan of Merger dated as of April 29, 2005, by and among the Company, MPG Acquisition Corporation, a wholly-owned subsidiary of the Company (Merger Subsidiary), and Maximum Performance Group, Inc. (MPG), the Company acquired MPG pursuant to the merger of MPG with and into Merger Subsidiary, with Merger Subsidiary continuing as the surviving corporation under the name Maximum Performance Group, Inc. Stockholders of MPG receiving consideration in the transaction included two Selling Stockholders. The merger consideration, after post closing adjustments, consisted of \$1,632,079 in cash, 166,149 shares of the Company s common stock and approximately 166,149 additional shares of common stock which have been placed in escrow. The cash portion of the consideration was funded with proceeds from a private placement of the Company s common stock completed on April 28, 2005, described under the preceding paragraph. Under the terms of the Merger Agreement, if MPG s revenues during the two years following the merger exceed an aggregate of \$5,500,000, then the escrow shares will be released to the former stockholders of MPG at the rate of 13.467 shares for every \$1,000 of revenue in excess of such amount. As of February 2, 2007, no shares have been released from such escrow. The distribution of stock received by Selling Stockholders as part of the merger consideration was as follows:

	Common Stock	Escrow Shares
Cinergy Ventures, LLC	52,706	63,621
Daniel Parke	21,082	15,125

Delano acted as an advisor to the Company with respect to the transaction. The Company paid Delano \$82,176 and 8,366 shares of common stock at closing and will pay up to 8,366 additional shares of common stock to Delano, as the escrow shares held in escrow are released if they are earned as described above. The shares issued to Delano were issued pursuant to the Company s 2001 Incentive Stock Plan.

On April 28, 2005, the Company issued a five year warrant to Laurus Master Fund, Ltd. to purchase 26,667 shares of common stock at an exercise price of \$15.00 per share. Such warrant was issued in exchange for Laurus consent to the Company s entering into the private placement and related MPG acquisition transactions that closed on April 28, 2005 and May 3, 2005, respectively, and are described above, as well as Laurus waiving its right to adjust the conversion price on its convertible term note and convertible revolving note then outstanding.

On November 22, 2005 Electric City Corp. and Laurus Master Fund, Ltd. entered into a securities purchase agreement under which the Company issued to Laurus, for an aggregate gross purchase price of \$5,000,000, a \$5 million convertible term note and a seven year warrant to purchase 133,333 shares of its common stock at an exercise price of \$17.40 per share. The convertible term note was repaid in full on June 29, 2006. See Recent Events *The PIPE Transaction, Series E Conversion and Laurus Repayment*. Also see the following paragraphs.

On June 29, 2006, the Company entered into the PIPE Transaction and Series E Conversion with 18 persons and entities, and issued to 17 investors, including 10 existing holders of the Company s Series E Preferred, for an aggregate purchase price of \$17,875,000, 17,875,000 shares of the Company s common stock. The other person which was a party to such securities purchase agreement was a holder of Series E Preferred, who did not purchase any common stock under such agreement. However, such agreement also provided for the Series E Conversion, which was consummated on the same day and resulted in 21,648,346 shares of common stock being issued pursuant to conversion of all outstanding Series E Preferred.

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A breakdown of the shares issued in the transaction and the shares issued as a result of the conversion of the Series E is as follows:

	Shares Issued Upon Conversion of Series E	Common Shares Issued Pursuant to PIPE	Aggregate Price Paid for PIPE Shares (\$)
David R. Asplund	354,200	1,500,000	\$ 1,500,000
Augustine Fund, LP	1,628,000	1,000,000	1,000,000
Christopher W. Capps	0	25,000	25,000
Cinergy Ventures II, LLC	1,902,293	1,100,000	1,100,000
John Donohue	294,000	0	0
Gregory Ekizian	0	400,000	400,000
Robert Gipson	1,913,600	450,000	450,000
Thomas Gipson	0	1,500,000	1,500,000
Julia Gluck	0	100,000	100,000
John Thomas Hurvis Revocable Trust	340,053	200,000	200,000
Rebecca Kiphart	0	200,000	200,000
Richard P. Kiphart	8,903,400	5,700,000	5,700,000
Leaf Mountain Company, LLC	2,015,900	1,300,000	1,300,000
Martin Mellish	0	250,000	250,000
Nikolaos Monoyios	1,913,600	450,000	450,000
Nettlestone Enterprises Limited	0	1,500,000	1,500,000
SF Capital Partners	2,237,600	2,000,000	2,000,000
David Valentine	145,700	200,000	200,000
Total	21,648,346	17,875,000	\$ 17,875,000

During the period from December 2003 through June 2006 the Company issued the following additional shares of preferred stock to Selling Stockholders as payment in kind dividends on outstanding shares of its Series A, Series C and Series D Convertible Preferred stock:

Holder	Dividends in Series A Shares	Dividends In Series C Shares	Dividends in Series D Shares	Dividends In Series E Shares	Common Share Equivalents
David R. Asplund	1,814	0	194	514	4,765
Augustine Fund LP	397	0	0	2,557	17,311
Cinergy Ventures II, LLC	29,018	0	3,108	5,583	58,637
John Donohue	90	0	0	431	2,933
Robert L. Gipson	0	0	0	1,635	10,900
John Thomas Hurvis Revocable Trust	1,814	0	194	814	6,765
Richard P. Kiphart	25,390	33,613	2,719	12,659	125,541
Nikolaos D. Monoyios	0	0	0	1,635	10,900
Leaf Mountain Company	68,770	0	0	3,413	68,600
SF Capital Partners Ltd.	14,508	0	1,554	3,900	36,708
David W. Valentine	0	0	0	144	960

Note: All of the outstanding Series A, Series C and Series D Convertible Preferred stock was redeemed for cash or exchanged for shares of Series E Preferred stock on March 22, 2004, as described above.

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Also on June 29, 2006, Laurus Master Fund, Ltd. elected to convert its convertible revolving note, along with accrued interest thereon, into 950,865 shares of the Company's common stock. In addition, in consideration of the issuance by the Company to Laurus of 392,596 shares of common stock, Laurus agreed to (a) waive the payment of liquidated damages due as a result of the Company's failure to register shares of common stock into which the November 2005 \$5 million convertible term note was convertible, and (b) terminate the requirement that the Company pay it a portion of the cash flows generated by the Company's virtual Negawatt power plan projects for a period of 5 years following the repayment of the \$5 million convertible term note, as required by the provisions of that note.

On July 25, 2006, the Company issued a warrant to Bristol Capital Ltd. to purchase 60,000 shares of its common stock as partial payment for services. The warrant has an exercise price of \$1.00 per share and expires on July 25, 2009.

On January 23, 2007, the Company issued a warrant to Bristol Capital Ltd. to purchase 120,000 shares of its common stock as partial payment for services. The warrant has an exercise price of \$1.00 per share and expires on December 31, 2009.

On June 10, 2004, Mr. Asplund was granted options to purchase 1,667 shares of the Company's stock pursuant to the Directors' Option plan. The options have an exercise price of \$27.75 per share and expire on the earlier of June 10, 2014, or six months following the date that Mr. Asplund is no longer a director of the Company.

On June 10, 2005, Mr. Asplund was granted options to purchase 1,667 shares of the Company's stock pursuant to the Directors' Option plan. The options have an exercise price of \$15.00 per share and expire on the earlier of June 10, 2015, or six months following the date that Mr. Asplund is no longer a director of the Company.

Effective January 23, 2006, the Company entered into an employment agreement with Mr. Asplund to serve as the Company's Chief Executive Officer for three years, ending on January 22, 2009. The contract provides for a base annual salary of \$285,000 and eligibility for up to \$65,000 of cash bonus compensation each year, based on the Company's performance. For 2006, the bonus was based on consolidated gross revenue, with \$15,000 payable if gross revenue exceeds \$10 million, an additional \$15,000 payable if gross revenue exceeds \$12.5 million, an additional \$15,000 payable if gross revenue exceeds \$16 million and an additional \$20,000 payable if gross revenue exceeds \$18 million. The bonus formula for the second and third contract years has not been determined but the agreement provides for it to be based on consolidated net income of the Company for such years.

In addition to base salary and bonus, the Company granted to Mr. Asplund ten-year options to purchase up to 100,000 shares for each of the three contract years, with such options vesting in arrears on the following January 22nd. The option price for the first 100,000 shares is \$9.30, which was the 30 day average closing price of the Company's common stock, determined on Friday, January 20, 2006, which was the last business day prior to the day Mr. Asplund began serving as CEO. Those options became vested on January 23, 2007. The option price for each of the subsequent grant is \$0.96 per share, which was the closing price for our stock on January 22, 2007. 33,333 of such options were granted pursuant to the Company's 2001 Incentive Stock Plan. The remaining 266,667 options were granted subject to obtaining shareholder approval to an amendment to the Company's Incentive Stock Plan at the 2006 annual meeting of shareholders to increase the number of shares available under the Plan by at least 266,667. This approval was obtained at the annual meeting of stockholders held on June 7, 2006 and such options are now subject to the terms of the Company's Incentive Stock Plan. Vesting of any unvested options will accelerate upon termination by the Company of Mr. Asplund's employment under the employment agreement (if such termination is for reasons other than "Due Cause" (as defined in the employment agreement)). Vesting will also accelerate upon termination due to Mr. Asplund's death and upon a change of control. In the event of termination for Due Cause, all unexercised options terminate immediately, whether vested or unvested. In the event of termination due to Mr. Asplund's disability or due to his resignation (other than resignation pursuant to the Company's breach), unvested options will terminate immediately, and vested options

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will be exercisable only for 180 days (if termination is due to disability) or for 90 days (if termination is due to Mr. Asplund's resignation). In the event of termination for the convenience of the Company, or by Mr. Asplund because of a breach by the Company, then all options which are scheduled to vest within one year shall vest immediately and be exercisable for one year thereafter. These options will otherwise expire on January 22, 2016.

Change of control is defined as a merger or consolidation of the Company resulting in an unrelated entity acquiring the power to elect a majority of the Company's Board of Directors, or a sale of substantially all of the Company's assets to an entity that is not then controlled by or affiliated with the Company. In the event that a change of control occurs and Mr. Asplund's employment period is terminated by the Company, any unvested options will vest and be exercisable for one year. All stock options which are not exercised within one year following such termination shall thereupon expire and no longer be exercisable.

On July 11, 2006, Mr. Asplund was granted additional options to purchase up to 4.3 million shares, with his right to exercise such options vesting with respect to 1.5 million options on December 31, 2006; 1.4 million options on December 31, 2007 and 1.4 million options on December 31, 2008. The exercise price on the 1.5 million options vesting on December 31, 2006 is \$1.02 per share. The exercise price on the 1.4 million options vesting on December 31, 2007 and December 31, 2008 is equal to \$0.96 per share. Vesting of the options will accelerate upon termination for reasons other than due cause (as defined in the option agreement), death, disability or resignation and upon a change of control. These options will expire on the earlier of January 22, 2016, or six months following the date that Mr. Asplund is no longer an employee of the Company, unless his termination was for due cause (as defined in the option agreement) in which case they will expire immediately, or due to a change of control (as defined in the option agreement) in which case they will expire twelve months following the change of control. These options contain a cashless exercise provision permitting Mr. Asplund to pay the purchase price for any shares acquired by exercising the option by surrendering to the Company a number of shares of common stock having an aggregate market value equal to the purchase price.

On January 24, 2006, Mr. Kiphart was awarded options to purchase 5,000 shares of the Company's stock pursuant to the Directors' Option plan. These options have an exercise price of \$15.00 per share, vested on January 1, 2007, and expire on the earlier of January 24, 2016, or six months following the date that Mr. Kiphart is no longer a director of the Company.

On July 11, 2006, Mr. Kiphart was awarded options to purchase 100,000 shares of the Company's stock pursuant to the Directors' Option plan. These options have an exercise price of \$1.02 per share, vested on January 11, 2007, and expire on the earlier of July 11, 2016, or six months following the date that Mr. Kiphart is no longer a director of the Company.

On October 5, 2005, Mr. Parke was awarded options to purchase 5,000 shares of the Company's stock pursuant to the Directors' Option plan. These options have an exercise price of \$15.00 per share, vested on April 5, 2006 and expire on the earlier of October 5, 2015, or six months following the date that Mr. Parke is no longer a director of the Company.

On June 30, 2006, Parke Industries, LLC entered into an Employment Agreement with Daniel Parke providing, among other things, that Mr. Parke would be employed as President of Parke Industries, LLC for two years at an annual salary of \$250,000 per year and for the Company to grant to Mr. Parke ten-year options to purchase up to 46,667 shares of common stock at a price per share of \$1.10 (the closing market price of Lime Energy's common stock on July 3, 2006, the business day immediately following the date of such Employment Agreement). Such options vest in three installments, with one-third vesting immediately, one third on June 30, 2007 and one-third on June 30, 2008. In the event that Mr. Parke's employment terminates for Due Cause (as defined therein), all unexercised options terminate immediately, whether or not vested. In the event of termination of such employment by reason of death or disability, any unvested options terminate and any vested options must be exercised within 90 days. In the event of termination of such employment for the convenience of the employer, or by Mr. Parke because of a breach by the employer, then all options which are scheduled to vest within one year shall vest immediately and be exercisable for one year thereafter. Change of control is defined as a merger or consolidation of the Company resulting in an unrelated entity acquiring the power to elect a majority of the

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Company's Board of Directors, or a sale of substantially all of the Company's assets to an entity that is not then controlled by or affiliated with the Company. In the event that a change of control occurs and Mr. Parke's employment period is terminated, any unvested options will vest and be exercisable for one year. All stock options which are not exercised within one year following such termination shall thereupon expire and no longer be exercisable. These options will otherwise expire on June 30, 2016.

On July 11, 2006, Mr. Parke was granted additional options to purchase up to 653,333 shares of the Company common stock at \$1.02 per share. Mr. Parke's right to exercise these options vest with respect to 217,765 options on December 31, 2006; 217,784 options on each of December 31, 2007 and December 31, 2008, in each case assuming that Mr. Parke continues to be employed by the Company on such date. Vesting of the options will accelerate upon termination for reasons other than due cause (as defined in his option agreement), death, disability or resignation and upon a change of control. These options will expire on the earlier of July 11, 2016, or six months following the date that Mr. Parke is no longer an employee of the Company, unless his termination is for due cause (as defined in the option agreement) in which case they will expire immediately, or due to a change of control (as defined in the option) in which case they will expire twelve months following the change of control. These options contain a cashless exercise provision permitting Mr. Parke to pay the purchase price for any shares acquired by exercising the option by surrendering to the Company a number of shares of common stock having an aggregate market value equal to the purchase price.

On May 26, 2004, Mr. Valentine was awarded options to purchase 5,000 shares of the Company's stock pursuant to the Directors' Option plan. The options have an exercise price of \$26.10 per share, vested on January 1, 2005, and expire on the earlier of May 26, 2014, or six months following the date that Mr. Valentine is no longer a director of the Company.

On May 26, 2005, Mr. Valentine was awarded options to purchase 1,667 shares of the Company's stock pursuant to the Directors' Option plan. The options have an exercise price of \$15.00 per share, vested on January 1, 2006, and expire on the earlier of May 26, 2015, or six months following the date that Mr. Valentine is no longer a director of the Company.

On July 11, 2006, Mr. Valentine was awarded options to purchase 100,000 shares of the Company's stock pursuant to the Directors' Option plan. The options have an exercise price of \$1.02 per share, vested on January 11, 2007, and expire on the earlier of July 11, 2016, or six months following the date that Mr. Valentine is no longer a director of the Company.

During January 2006, we entered into a consulting agreement with Parke P.A.N.D.A. Corporation to provide sales and marketing consulting services. Parke P.A.N.D.A. is a company which at the time was beneficially owned by Daniel Parke, one of our directors. Pursuant to the consulting agreement we agreed to pay Parke P.A.N.D.A. \$10,000 per month and to reimburse it for any expenses incurred as a result of its work. We paid Parke P.A.N.D.A. a total of \$61,155 during the six months ended June 30, 2006. This agreement was terminated in May 2006.

During January 2006 and again in November 2006, we retained Corporate Resource Development, a company owned by William Carey, one of our directors, to provide sales training and sales and marketing consulting services to Lime Energy. We paid Corporate Resource Development a total of \$62,500 for these services.

On June 29, 2006 we completed the PIPE Transaction, a sale of shares of our common stock to a group of 17 investors, including 10 (of a total of 11) holders of our Series E Preferred stock. Three of the former Series E Preferred stockholders (Messrs. Kiphart, Asplund and Valentine) were investors in the PIPE Transaction and are members of our Board of directors. Also, on June 29, 2006, we acquired Parke P.A.N.D.A. Corporation (Parke), a company owned by The Parke Family Trust, which is controlled and beneficially owned by Daniel Parke, another of our directors, and his spouse. See Recent Events *PIPE Transaction, Series E Conversion and Laurus Repayment*.

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On January 2, 2007, Mr. Kiphart was awarded options to purchase 50,000 shares of the Company's stock pursuant to the Directors' Option plan. The options have an exercise price of \$0.90 per share, will vest on January 1, 2008, and expire on the earlier of January 2, 2017, or six months following the date that Mr. Kiphart is no longer a director of the Company.

On January 2, 2007, Mr. Valentine was awarded options to purchase 50,000 shares of the Company's stock pursuant to the Directors' Option plan. The options have an exercise price of \$0.90 per share, will vest on January 1, 2008, and expire on the earlier of January 2, 2017, or six months following the date that Mr. Valentine is no longer a director of the Company.

On January 23, 2007, we filed an amendment to our certificate of incorporation to effect the 1 for 15 reverse split of our common stock. See Recent Events *Reverse Stock Split* and Recent Events *Amendment to Certificate of Incorporation*. Because the reverse split became effective January 23, 2007 and not on June 15, 2006 as we had believed, the shares of common stock that were issued in the June 29 Transactions were reduced on a 1 for 15 basis when the amendment was filed. Since both we and the other parties to those transactions intended that the shares we issued were post-reverse split shares, following the filing of the amendment and the reverse split becoming effective, we offered to each of the recipients of shares in the June 29 Transactions, which include certain Selling Stockholders under this Prospectus, additional shares of common stock so that each would have the specific number of post-reverse split shares of which were intended in those transactions, in satisfaction of any claims such recipients might have in respect of such matter. All of them accepted such offer. Such "catch-up" shares were issued on or about February 1, 2007. Please see the discussion of the Reverse Stock Split (including the table therein) and of the Amendment to Certificate of Incorporation under Recent Events on pages 3 and 7 for additional information regarding these issuances. Among those receiving "catch-up" shares were Mr. Kiphart, Mr. Asplund, Mr. Parke and Mr. Valentine. They received the following shares of stock on or about February 1, 2007:

Stockholder	No. Of Shares	Number Of	Number Of
	Actually Acquired After June 15, 2006	Shares After The Amendment and Reverse- Split	
David R. Asplund	1,854,200	123,613	1,730,587
Richard P. Kiphart	14,603,400	973,560	13,629,840
David W. Valentine	345,700	23,047	322,653
The Parke Family Trust	5,000,000	333,333	4,666,667

A provision of the June 29, 2006 PIPE Transaction required us to file and have declared effective by November 3, 2006, a registration statement registering the shares issued as part of the PIPE Transaction. To the extent that we failed to have the registration statement declared effective by this date, we are required to pay penalties to the PIPE investors at the rate of 1% per month of the purchase price paid by the investors. Largely as a result of the questions regarding the need to amend our Certificate of Incorporation to effect the June 15, 2006 reverse split of our stock, we were not able to have the registration statement declared effective before the November 3, 2006 deadline. All of the investors in the PIPE Transaction agreed to accept shares of our common stock, valued at \$1.00 per share, as payment of this registration penalty. As a result, on January 24, 2007 and February 2, 2007 we issued a total of 530,291 shares of common stock to these PIPE investors in satisfaction of the penalties owed through January 31, 2007. Among those receiving shares of stock in satisfaction of the registration penalty were Mr. Asplund, Mr. Kiphart and Mr. Valentine. They received the following shares of stock:

Shares Received on January 24,	Shares Received	Total Shares
--------------------------------------	--------------------	--------------

Stockholder	2007	on February 2, 2007	Received
David R. Asplund	29,000	15,500	44,500
Richard P. Kiphart	110,200	58,900	169,100
David W. Valentine	3,867	2,067	5,934

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Due to potential conflicts of interest resulting from (i) the beneficial ownership of Parke P.A.N.D.A. Corporation by Daniel Parke, and (ii) certain members of our Board (Messrs. Kiphart, Asplund and Valentine) beneficially owning shares of Series E Preferred Stock and agreeing to purchase shares of common stock in the PIPE Transaction and concurrently convert their shares of Series E Preferred Stock into shares of our common stock, our board established a special committee comprised solely of disinterested, independent directors to review, negotiate and approve the acquisition of Parke P.A.N.D.A. and the PIPE Transaction. The special committee retained Rittenhouse Capital Partners, LLC (Rittenhouse) to act as its financial advisor, and legal counsel to assist it in its review of these transactions. Rittenhouse reviewed the Parke acquisition and delivered to the special committee an opinion to the effect that the purchase price paid for Parke was fair to us from a financial point of view. It also provided information, advice and analysis to assist the committee in its review of the structure and pricing of the PIPE Transaction. Legal counsel assisted the special committee in its review of these transactions and advised the committee on its duties and responsibilities. After considering all of the information it had gathered, the committee concluded that these transactions were in the best interests of the Company and its stockholders, and approved the Parke acquisition and the PIPE Transaction.

As part of the acquisition of Parke P.A.N.D.A. Corporation, we assumed its existing office lease for space in a building owned by Daniel Parke in Glendora California. We believe that the terms of the lease are fair as they are comparable to the terms of leases with other third party tenants located in the building.

Review, Approval or Ratification of Transactions with Related Persons

The Company does not have a written policy concerning transactions between the Company or a subsidiary of the Company and any director or executive officer, nominee for director, 5% stockholder or member of the immediate family of any such person. However, the Company's policy is that such transactions are shall be reviewed by the Company's Board of Directors and found to be fair to the Company prior to the Company (or a subsidiary) entering into any such transaction, except for (i) executive officers' participation in employee benefits which are available to all employees generally; (ii) transaction involving routine goods or services which are purchased or sold by the Company (or a subsidiary) on the same terms as are generally available in arm's length transaction with unrelated parties (however, such transactions are still subject to approval by an authorized representative of the Company (or a subsidiary) in accordance with internal policies and procedures applicable to such transactions with unrelated third parties); and (iii) compensation decisions with respect to executive officers other than the CEO, which are made by the Compensation Committee pursuant to recommendations of the CEO, as is described under Executive Compensation below.

Table of Contents**MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS**

From December 12, 2000 to June 9, 2006, our common stock was listed on the American Stock Exchange under the trading symbol ELC. From June 12, 2006 through September 21, 2006, our common stock traded on the OTC Bulletin Board under the trading symbol ELCY. Since September 22, 2006 our stock has traded on the OTC Bulletin Board under the symbol LMEC.

In June, 2006, we announced a 1 for 15 reverse split of our common stock, effective on June 15, 2006 and since that date, our common stock has been trading on that basis. See Recent Events *Reverse Stock Split* for more information about this matter.

The closing price of our common stock on February 6, 2007 was \$1.05. The following table sets forth the quarterly high and low selling prices for our common stock as reported on The American Stock Exchange and OTC Bulletin Board since January 1, 2004, adjusted for the reverse split.

	Common Stock	
	High	Low
Fiscal Year Ended December 31, 2004:		
Fiscal Quarter Ended March 31, 2004	\$37.05	\$25.50
Fiscal Quarter Ended June 30, 2004	\$31.20	\$23.25
Fiscal Quarter Ended September 30, 2004	\$28.95	\$16.65
Fiscal Quarter Ended December 31, 2004	\$21.30	\$15.75
Fiscal Year Ended December 31, 2005:		
Fiscal Quarter Ended March 31, 2005	\$19.50	\$12.90
Fiscal Quarter Ended June 30, 2005	\$16.05	\$12.15
Fiscal Quarter Ended September 30, 2005	\$18.60	\$10.05
Fiscal Quarter Ended December 31, 2005	\$13.65	\$ 7.50
Fiscal Year Ended December 31, 2006:		
Fiscal Quarter Ended March 31, 2006	\$16.80	\$ 8.40
Fiscal Quarter Ended June 30, 2006	\$10.20	\$ 0.70
Fiscal Quarter Ended September 30, 2006	\$ 1.40	\$ 0.75
Fiscal Quarter Ended December 31, 2006	\$ 1.29	\$ 0.76

COMMON STOCK PERFORMANCE GRAPH

The following graph compares the performance of the Company's Common Stock to that of the Dow Jones Electric Component & Equipment Index and the Russell 3000. The Company's Common Stock began trading on the American Stock Exchange from December 12, 2000 through June 9, 2006. Beginning on June 12, 2006, our common stock began trading on the OTC Bulletin Board under the trading symbol ELCY. On September 13, 2006 we changed our name to Lime Energy Co. after merging with a wholly owned subsidiary which was set up solely for the purpose of effecting a name change. On September 22, 2006 our stock began trading on the OTC Bulletin Board under the trading symbol LMEC.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN

Based on an Initial Investment of \$100 on December 31, 2000 with dividends reinvested

	Cumulative Total Return (1)					
	12/31/01	12/31/02	12/31/03	12/31/04	12/31/05	12/31/06
Electric City Corp.	\$100.00	\$ 61.60	\$188.80	\$ 99.20	\$ 48.00	\$ 4.80
Dow Jones Electric Components & Equipment Index	\$100.00	\$ 59.28	\$ 96.82	\$ 86.90	\$ 90.72	\$101.20
Russell 3000	\$100.00	\$ 77.19	\$ 99.36	\$109.38	\$114.06	\$129.64

- (1) Assumes an investment of \$100 in the Company's Common Stock and each index on December 31, 2001, with reinvestment of dividends.

Holders

As of February 7, 2007 we had approximately 4,850 holders of record of our common stock and 50,316,902 shares of common stock outstanding.

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Dividends

For the nine months ended September 30, 2006, we declared and paid the following dividends on our preferred stock:

On March 8, 2006, our Board of Directors declared dividends payable on our Series E Convertible Stock for the calendar quarter ending March 31, 2006 to shareholders of record of the Series E Preferred Stock as of March 31, 2006. The dividends were paid with 3,489 additional shares of Series E Preferred Stock. Each share of Series E Preferred Stock is convertible into 6.67 shares of our common stock.

Effective June 29, 2006, our Board of Directors declared dividends payable on our Series E Preferred Stock of \$349,100. The dividends were paid with 3,491 additional shares of Series E Convertible Preferred Stock.

On June 29, 2006 all of the outstanding shares of Series E Convertible Preferred stock were converted into shares of common stock, thus there will not be any dividends in future periods related to this issue of preferred stock

For a further discussion regarding preferred stock dividends, see Management's Discussion and Analysis of Financial Condition and Results of Operations Preferred Stock Dividends.

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. See Management's Discussion and Analysis and Results of Operations Liquidity and Capital Resources.

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EXECUTIVE COMPENSATION

Overview of Executive Compensation Program

The Company has not had a formalized program for determining executive compensation. In fact, three of the four current executive officers (Messrs. Asplund, Parke and Pisano) receive most of their compensation under written employment agreements that were negotiated in connection with their becoming employees of the Company or one of its subsidiaries. In each of these instances, the Board of Directors approved the employment agreement and the terms were negotiated at the time in light of specific circumstances. However, in general, our executive officers have received compensation consisting of three components, a cash component, consisting of salary meant to be competitive with salaries such individuals could obtain from other employers, eligibility for annual cash bonuses based on meeting or exceeding certain goals established for the year, and stock options intended to reward achievement of long-term goals and align the interests of our executive officers with those of our stockholders. In certain cases, the Company has provided automobile allowances to executives who are expected to use their cars for Company business. Executive officers participate in group health insurance on the same basis as other full-time employees.

Except as noted above with respect to the current employment agreements with Messrs. Asplund, Parke and Pisano, the Compensation Committee of the Board of Directors makes all compensation decisions for our executive officers. Generally, compensation decisions for executive officers other than our chief executive officer (CEO) have been made by the Compensation Committee pursuant to recommendations made by the CEO. The Company has not used consultants in connection with making compensation decisions and does not have any current engagement with any consultant related to executive or director compensation.

Objectives of Compensation Program

The Company's compensation of executive officers is intended to reward improved overall financial performance of the Company and its subsidiaries, and to reward achievement of specified annual goals and increases in Company value over the long term.

Annual salaries for executive officers have been established with the goal of attracting and retaining qualified individuals for the positions. These have been determined on a case by case basis.

Eligibility for annual cash bonus awards has been based on specific performance goals for the year for the Company and its subsidiaries. The amount of bonus for which an individual is eligible for any year has been determined on a case by case basis, although the annual bonus plan targets have been established for all participants in any given year.

Stock options awards are intended to reward achievement leading to increases in Company value over the longer term. The amounts of awards have been determined on a case by case basis.

In order to reward superior short-term performance, cash compensation each year has included eligibility for a cash bonus based on annual goals established by the Compensation Committee, subject to approval of the Board. During the past five years, however, no cash bonuses have been paid pursuant to such annual plans, as the Company has not achieved the annual goals in any fiscal year. The Board and the Compensation Committee are now in the process of reviewing the annual bonus plan portion of cash compensation with the goal of making it more effective at achieving such annual goals.

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To motivate executive officers to achieve the longer-term goal of increasing the value of the Company and its subsidiaries, and to reward them for achieving such long-term goals, stock options have been included as part of the compensation structure for our executive officers. Stock options also provide an increased opportunity for equity ownership by our executive officers. Option grants have been made on a case-by-case basis. A typical stock option grant has been structured to have a ten year exercise period, to vest over a period of years, with vesting also depending upon the executive remaining employed by the Company or a subsidiary of the Company, and to have an exercise price equal to the market price on the grant date. In certain cases, options have been granted at an exercise price higher than the market price. The Company has not granted options with an exercise price that is less than the market price on the grant date.

Stock price performance has not been a factor in determining annual compensation because the price of the common stock is subject to factors which may not reflect the Company's performance and are outside of our control.

The Company does not have a formula for allocating between cash and non-cash compensation. The number of stock options awarded to an executive officer has been decided on a case-by-case basis, not pursuant to any specific guidelines or program. Most of the stock options we have awarded to executive officers have been pursuant to written employment agreements entered into when the executive joined the Company, or pursuant to extending such employment under a new written agreement entered into following termination of the old one.

An exception to this occurred in July 2006, when a number of stock option grants to executives and other employees were made following consummation of the transactions which closed at the end of June. (See Recent Events Reverse Stock Split, for a description of the transactions occurring in June 2006.)

Unaudited Financial Information

The 2006 financial information that follows has been derived from the Company's books and records. The Company's 2006 Consolidated Financial Statements are currently being prepared and have not yet been subject to audit. Accordingly, the financial information which follows relating to 2006 is unaudited.

Where applicable, the Company expects that the assumptions used in such financial information (for example assumptions used to determine stock compensation expense under SFAS 123(R), *Share Based Payment*) will be the same as those used in preparing the Company's 2006 Consolidated Financial Statements.

Accounting and Tax Considerations

Our stock option grant policies have been impacted by the implementation of SFAS No. 123(R), which we adopted effective on January 1, 2006. Under this accounting pronouncement, we are required to value unvested stock options granted prior to our adoption of SFAS 123 under the fair value method and expense those amounts in the income statement over the stock option's remaining vesting period. As a result of adopting SFAS 123(R) \$4,816,619 of share based compensation expense was included in the results for 2006.

Table of Contents**Current Executive Officers**

The Company currently has four executive officers, David Asplund, our Chief Executive Officer, Jeffrey Mistarz, Chief Financial Officer (CFO), Daniel Parke, our President and Chief Operating Officer (Mr. Parke is also president of Parke Industries, LLC, a subsidiary), and Leonard Pisano, our Executive Vice President of Sales (Mr. Pisano is also president of Maximum Performance Group, Inc., a subsidiary). For purposes of compensation disclosure for 2006, information is also included for Anna Baluyot, a former senior vice president of the Company who resigned on November 10, 2006 but was among our five mostly highly compensated employees for the fiscal year ended December 31, 2006.

2004-2005 SUMMARY COMPENSATION TABLE

The following table summarizes the total compensation paid or awarded to each of our named executive officers whose total compensation exceeded \$100,000 during the fiscal year ended December 31, 2005 and for each of our fiscal years ended December 31, 2005 and 2004. No bonuses were earned during any of the fiscal years reported on the following table.

Name and Principal Position	Year Ended	Annual Compensation		Long Term	All
		Salary	Other Compensation	Compensation	Securities Other
		(1)	(1)	Options	(2) (9)
John P. Mitola (3) <i>our former chief executive Officer</i>	12/31/05	\$ 246,875	\$ 6,600(4)		\$ 8,690
	12/31/04	\$ 247,396	\$ 6,600(4)		\$ 8,294
Leonard Pisano (5) <i>our chief operating officer</i>	12/31/05	\$ 151,322	\$ 49,773(6)	31,667	
	12/31/04				
Jeffrey R. Mistarz <i>our chief financial officer and treasurer</i>	12/31/05	\$ 207,375			\$ 6,238
	12/31/04	\$ 207,812			\$ 6,084
Denis Enberg (7) <i>our former executive vice president of engineering</i>	12/31/05	\$ 207,375			
	12/31/04	\$ 193,594		3,333	
Eugene Borucki (8) <i>the former president of Great Lakes Controlled Energy</i>	12/31/05	\$ 148,125		6,667	
	12/31/04	\$ 144,375		667	

(1) Certain employees of the Company, including Messrs. Mitola, Pisano, Mistarz, Enberg and Borucki voluntarily reduced

their salaries for portions of 2004 and 2005.

- (2) Amounts of All Other Compensation are the amounts paid for long-term disability insurance for the Named Officers and the cost of life insurance for Messrs. Mitola and Mistarz.
- (3) Mr. Mitola resigned as our chief executive officer effective January 22, 2006.
- (4) This represents a monthly auto allowance of \$550 for Mr. Mitola.

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- (5) Mr. Pisano became our chief operating officer in May 2005 after the acquisition of Maximum Performance Group, Inc. where he served as president both before and after we acquired it.
- (6) This represents a monthly auto allowance of \$500 and the payment of \$45,773 of deferred salary.
- (7) Messrs. Enberg and Borucki's employment with the Company terminated effective March 31, 2006.
- (8) Mr. Borucki was not an executive officer of the Company but is included for purposes of compensation disclosure.
- (9) All quantities adjusted for the 1 for 15 reverse split announced in June 2006.

2006 SUMMARY COMPENSATION TABLE

The following table includes information concerning compensation for the year ended December 31, 2006 in reference to the five highest paid employees at Lime Energy, which includes required disclosure related to our CEO and the executive officers of the Company.

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Name and		Salary	Bonus	Stock	Option	Non-Equity	Change	All Other	
Principal Position	Year	(\$)	Awards	Awards	Awards	Incentive	in	Compensation	Total (\$)
			(\$)	(\$)	(\$)	Plan	Pension	Compensation	
						Compensation	Value	Compensation	
						and	and		
						Nonqualified	Deferred		
						All Other			
						Compensation			
						Earnings			
David R. Asplund <i>Chief Executive Officer</i>	2006	268,923			2,061,732 (2)			20,662 (3)	2,351,317
Anna Baluyot (4) <i>Senior Vice President, Utility Development</i>	2006	123,878			9,537			4,525 (5)	137,940
Jeffrey R. Mistarz <i>Executive Vice President & Chief Financial Officer</i>	2006	210,000			402,059			6,518 (6)	618,577
Daniel W. Parke (7) <i>President, Chief Operating Officer of Lime Energy Co. & President of Parke Industries, LLC</i>	2006	128,892			304,810 (8)			50,644 (9)	484,346
Leonard Pisano <i>Executive Vice President Sales & President of Maximum Performance Group, Inc.</i>	2006	225,000			594,991			6,399 (10)	826,390
John P. Mitola (11)	2006	20,833						106,964 (12)	127,797

*Our former Chief
Executive Officer*

- (1) Amounts represent the compensation cost recognized during 2006 of stock awards granted in and prior to 2006 based on the grant date fair value recognized over the requisite service period in accordance with Statement of Financial Accounting Standards (SFAS) No. 123(R). The value weighted-average significant assumptions used to determine the grant date fair value are as follows:

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Significant Assumption (value weighted-average)	2006	2005	2004
Risk-free rate	5.02%	2.27%	1.04%
Dividend yield			
Expected volatility	90%	65%	72%
Expected life (years)	5.6	9.1	9.1

(2) Includes the costs recognized during 2006 of director options awarded to Mr. Asplund prior to his employment with the Company totaling \$4,636.

(3) Includes \$11,873 for the cost of life and long term disability insurance, \$6,325 of auto allowance and the \$2,464 cost of membership to a business club provided to Mr. Asplund.

(4) Ms. Baluyot is not an executive officer of the Company, but is included for compensation disclosure. Ms. Baluyot resigned November 10, 2006.

(5) Includes \$4,200 of auto allowance and

\$325 for the cost of long term disability insurance provided Ms. Baluyot.

- (6) Represents the cost of long term disability insurance provided to Mr. Mistarz.
- (7) Mr. Parke became our President effective June 30, 2006 when we acquired his company, Parke P.A.N.D.A. Corporation. The compensation reported for Mr. Parke only includes the amounts paid to him since June 30, 2006.
- (8) Includes the costs recognized during 2006 of director options awarded to Mr. Parke prior to his employment with the Company totaling at \$11,880.
- (9) Includes \$644 for the cost of long term disability insurance

provided
Mr. Parke.
During
January 2006,
we entered into
a consulting
agreement with
Parke
P.A.N.D.A.
Corporation to
provide sales
and marketing
consulting
services. Parke
P.A.N.D.A. is a
company which
at the time was
beneficially
owned by
Daniel Parke.
Pursuant to the
consulting
agreement we
agreed to pay
Parke
P.A.N.D.A.
\$10,000 per
month and to
reimburse it for
any expenses
incurred as a
result of its
work. We paid
Parke
P.A.N.D.A. a
total of \$50,000
for its services
and reimbursed
it \$11,155 for
expenses during
the six months
ended June 30,
2006. This
agreement was
terminated in
May 2006 prior
to the
acquisition of
Parke
P.A.N.D.A.
Corporation on

May 29, 2006.

- (10) Includes \$6,000 of auto allowance and \$399 for the cost of long term disability insurance provided Mr. Pisano.
- (11) Mr. Mitola resigned from the Company effective January 22, 2006.
- (12) Includes \$550 of auto allowance and \$754 for the cost of life and long term disability insurance provided for Mr. Mitola. Also includes \$105,660 paid to Mr. Mitola pursuant to a consulting agreement under which he agreed to continue to assist the Company through July 31, 2006.

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Employment Contracts, Termination of Employment and Change-in-Control Arrangements

David R. Asplund

Effective January 23, 2006 we entered an employment contract with David Asplund for a three year period ending January 22, 2009 to serve as the Company's Chief Executive Officer. The contract provides for a base annual salary of \$285,000 and eligibility for up to \$65,000 of cash bonus compensation each year, based on the Company's performance. For 2006, the bonus was based on consolidated gross revenue, with \$15,000 payable if gross revenue exceeds \$10 million, an additional \$15,000 payable if gross revenue exceeds \$12.5 million, an additional \$15,000 payable if gross revenue exceeds \$16 million and an additional \$20,000 payable if gross revenue exceeds \$18 million. The bonus formula for the second and third contract years has not been determined but is to be based on our consolidated net income for such years.

In addition to base salary and bonus, we granted to Mr. Asplund ten-year options to purchase up to 100,000 shares for each of the three contract years, with such options vesting in arrears on the following January 22nd. The option price for the first 100,000 shares is \$9.30, which was the 30 day average closing price of our common stock, determined on Friday, January 20, 2006, which was the last business day prior to the day Mr. Asplund began serving as CEO. Those options became vested on January 23, 2007 and are scheduled to expire on January 22, 2016 except as described below. The exercise price for the remaining grants was set by our Board on January 26, 2007 to be \$0.96 per share. All such options are governed by our 2001 Incentive Stock Plan, as amended, except as set forth in the employment agreement.

Under his employment agreement with the Company, Mr. Asplund is entitled to certain benefits if his employment terminates for certain reasons. If Mr. Asplund should die prior to January 23, 2009, all of his unvested stock options would immediately vest. In addition, all such stock options and any previously vested stock options, would be exercisable for a period of one year following the date of death.

If Mr. Asplund should become permanently disabled (such that he could not perform his duties for 180 consecutive days or for 180 days in any period of 12 consecutive months), the Company would have the right to terminate his employment, then any stock options which were then already vested would be exercisable for a period of 180 days following such termination.

If Mr. Asplund should terminate his employment prior to January 22, 2009 for reasons other than death, disability or uncured default by the Company under the agreement, then any vested stock options as of the date of termination shall be exercisable for 90 days following the date of termination.

If the Company should terminate Mr. Asplund's employment prior to January 22, 2009, for any reason other than death, disability or Due Cause (as defined in the agreement), or if Mr. Asplund should choose to terminate his employment because the Company defaulted in its obligations under the agreement and failed to cure such default after notice, then all unvested stock options which are scheduled to vest within one year of the date of termination will immediately vest. In addition, all such stock options and any previously vested stock options, would be exercisable for a period of one year following the date of termination. Additionally, the Company will pay Mr. Asplund, as severance compensation, (i) six months' salary at his then current rate, in installments in accordance with the Company's regular payroll, plus (ii) any bonus earned as of the termination date, in accordance with the terms of such bonus, plus (iii) any accrued unused vacation (which will be paid on the next regular payroll date).

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Due Cause is defined as any of (i) a material breach by Mr. Asplund of his agreement not cured within fifteen (15) calendar days following written notice thereof, (ii) commission of a felony, or theft or embezzlement of property of the Company, (iii) actions which result in material injury to the businesses, properties or reputation of the Company or any of its subsidiaries, (iv) refusal to perform or substantial neglect of the duties assigned to Mr. Asplund not remedied within fifteen (15) calendar days following written notice thereof, or (v) any material violation of any statutory or common law duty of loyalty to the Company.

In addition to the foregoing, upon occurrence of a Change of Control all stock options granted to Mr. Asplund under the agreement shall immediately vest and become exercisable. Change of Control shall be deemed to have occurred when (i) the Company is merged or consolidated with another entity which is not then controlled by the Company and, as a result of such merger or consolidation, an unrelated entity acquires the ability to elect a majority of the Company's Board of Directors, or (ii) substantially all of the Company's assets are sold or otherwise transferred to another entity that is not then controlled by or affiliated with the Company.

The employment agreement imposes on Mr. Asplund non-competition, non-solicitation and confidentiality obligations, which are not separately compensated. The non-competition obligation covers the employment period and extends for two years after termination.

On July 11, 2006, Mr. Asplund was awarded options to purchase up to 4,300,000 shares of the Company's stock, of which 1,500,000 are exercisable at \$1.02 per share and the remaining 2,800,000 are exercisable at \$0.96 per share. The options vest as follows: 1,500,000 on December 31, 2006, 1,400,000 on December 31, 2007 and 1,400,000 on December 31, 2008, in each case assuming that Mr. Asplund continues to be employed by the Company on such date. Vesting of the options will accelerate upon termination for reasons other than due cause (defined similarly to the definition in his employment agreement), death, disability or resignation and upon a change of control. These options will expire on the earlier of July 11, 2016, or six months following the date that Mr. Asplund is no longer an employee of the Company, unless his termination is for due cause (as defined in the option agreement) in which case they will expire immediately, or due to a change of control (as defined in the option agreement) in which case they will expire twelve months following the change of control. These options contain a cashless exercise provision permitting Mr. Asplund to pay the purchase price for any shares acquired by exercising the option by surrendering to the Company a number of shares of common stock having an aggregate market value equal to the purchase price.

Leonard Pisano

Effective May 3, 2005 our subsidiary, Maximum Performance Group, Inc. (MPG) entered into an employment agreement with Leonard Pisano to serve as its president for a three-year period ending May 2, 2008. We also appointed him chief operating officer of Lime Energy, a position which he held until June 30, 2006, when he became executive vice president of sales of Lime Energy. The employment agreement provides for a base salary of \$225,000 plus a monthly auto allowance of \$500. In addition, Mr. Pisano is eligible to receive a \$50,000 bonus upon the Company's achievement of two consecutive quarters of positive EBITDA and to participate in an annual bonus plan with certain other management employees as determined by the Board of Directors. The employment agreement also provides that Mr. Pisano shall have board observation rights such that he may attend meetings of the Company's Board of Directors as an observer during the employment term. The agreement also provides that Mr. Pisano is to be granted ten year options to purchase 31,667 shares of our common stock at \$15.00 per share. These options vest 5,000 on the effective date of the agreement, 8,889 shares on the each of the remaining anniversaries of the agreement, except on occurrence of a Change of Control all these options shall immediately vest and become exercisable. Change of Control shall be deemed to have occurred when (i) Lime Energy is merged or consolidated with another entity which is not then controlled by Lime and, as a result of such merger or consolidation, at 51% of Lime's common stock is controlled by another entity, or (ii) a majority of Lime Energy's assets are sold or otherwise transferred to another entity that is not then controlled by or affiliated with Lime Energy. These options will otherwise expire on May 3, 2015.

Under his employment agreement, if MPG should terminate his employment prior to May 2, 2008, for any reason other than death, disability or Due Cause, then MPG will continue to pay Mr. Pisano his salary and benefits under the agreement until May 3, 2008.

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Due Cause is defined in Mr. Pisano's agreement in terms similar to those under David Asplund's employment agreement, but also includes any violation of MPG's drug and alcohol policy and any commission of an act of moral turpitude.

The employment agreement imposes on Mr. Pisano non-competition, non-solicitation and confidentiality obligations, which are not separately compensated. The non-competition obligation covers the employment period and extends for two years after termination.

On July 11, 2006, Mr. Pisano was awarded options to purchase up to 1,350,000 shares of the Company's stock at \$1.02 per share. The options vest in three equal amounts, with 450,000 vesting on December 31, 2006, 450,000 vesting on December 31, 2007 and 450,000 vesting on December 31, 2008, in each case assuming that Mr. Pisano continues to be employed by the Company on such date. Vesting of the options will accelerate upon termination for reasons other than due cause (defined similarly to the definition in his employment agreement), death, disability or resignation and upon a change of control. These options will expire on the earlier of July 11, 2016, or six months following the date that Mr. Pisano is no longer an employee of the Company, unless his termination is for due cause (as defined in the option agreement) in which case they will expire immediately, or due to a change of control (as defined in the option agreement) in which case they will expire twelve months following the change of control. These options contain a cashless exercise provision permitting Mr. Pisano to pay the purchase price for any shares acquired by exercising the option by surrendering to the Company a number of shares of common stock having an aggregate market value equal to the purchase price.

Jeffrey Mistarz

Effective January 1, 2003, we entered into an employment agreement with Mr. Mistarz for a three-year period ending on December 31, 2005. This agreement provided for an annual base salary of \$175,000 through December 31, 2003, which increased to \$210,000 effective January 1, 2004. In addition, Mr. Mistarz was eligible to participate in an annual bonus plan with certain other management employees. The agreement provided Mr. Mistarz with options to purchase 26,667 shares of our common stock at a price of \$15.00 per share, which options vested 8,889 shares each on December 31, 2003, 2004 and 2005. Except as specifically set forth in the employment agreement, such options are governed by the Company's 2001 Stock Incentive Plan.

On August 15, 2006, we entered into a new employment agreement with Mr. Mistarz to serve as our executive vice president and chief financial officer for a two-year period ending August 14, 2008. The employment agreement provides for a base salary of \$210,000. In addition, Mr. Mistarz is eligible to participate in an annual bonus plan with certain other management employees as determined by the Board of Directors. The employment contract also provides that Mr. Mistarz is to be granted options to purchase 300,000 shares of our common stock at \$1.00 per share. The options vest in three equal amounts, with one third vesting upon signing of the employment contract, the second third vesting on the first anniversary of the employment contract and the final third vesting on the second anniversary of the employment contract.

Under his employment agreement with the Company, Mr. Mistarz is entitled to certain benefits if his employment terminates for certain reasons. If Mr. Mistarz should die prior to August 15, 2008, all of his unvested stock options would immediately vest. In addition, all such stock options and any previously vested stock options, would be exercisable for a period of one year following the date of death.

If Mr. Mistarz should become permanently disabled (such that he could not perform his duties for 180 consecutive days or for 180 days in any period of 12 consecutive months), the Company would have the right to terminate his employment, then any stock options which were then already vested would be exercisable for a period of 90 days following such termination.

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If Mr. Mistarz should terminate his employment prior to August 14, 2008 for reasons other than death, disability or uncured default by the Company under the agreement, then any vested stock options as of the date of termination shall be exercisable for 90 days following the date of termination.

If the Company should terminate Mr. Mistarz's employment prior to August 14, 2008, for any reason other than death, disability or Due Cause, or if Mr. Mistarz should choose to terminate his employment because the Company defaulted in its obligations under the agreement and failed to cure such default after notice, then all unvested stock options which are scheduled to vest within one year of the date of termination will immediately vest. In addition, all such stock options and any previously vested stock options, would be exercisable for a period of one year following the date of termination. Additionally, the Company will pay Mr. Mistarz, as severance compensation, (i) six months salary at his then current rate, in installments in accordance with the Company's regular payroll, plus (ii) any bonus earned as of the termination date, in accordance with the terms of such bonus, plus (iii) any accrued unused vacation (which will be paid on the next regular payroll date).

Due Cause is defined in Mr. Mistarz's agreement in terms substantially similar to those under David Asplund's employment agreement.

In addition to the foregoing, upon occurrence of a Change of Control all stock options granted to Mr. Mistarz under the agreement shall immediately vest and become exercisable. Change of Control shall be deemed to have occurred when (i) the Company is merged or consolidated with another entity which is not then controlled by the Company and, as a result of such merger or consolidation, at 51% of the Company's common stock is controlled by another entity, or (ii) a majority of the Company's assets are sold or otherwise transferred to another entity that is not then controlled by or affiliated with the Company.

The employment agreement also imposes non-competition, non-solicitation and confidentiality obligations on Mr. Mistarz, which are not separately compensated. The non-competition obligation covers the employment period and extends for two years after termination.

On July 11, 2006, Mr. Mistarz was awarded options to purchase up to 750,000 shares of the Company's stock at \$1.02 per share. The options vest in three equal amounts, with 250,000 vesting on December 31, 2006, 250,000 vesting on December 31, 2007 and 250,000 vesting on December 31, 2008, in each case assuming that Mr. Mistarz continues to be employed by the Company on such date. Vesting of the options will accelerate upon termination for reasons other than due cause (as defined in his option agreement), death, disability or resignation and upon a change of control. These options will expire on the earlier of July 11, 2016, or six months following the date that Mr. Mistarz is no longer an employee of the Company, unless his termination is for due cause (as defined in the option agreement) in which case they will expire immediately, or due to a change of control (as defined in the option agreement) in which case they will expire twelve months following the change of control. These options contain a cashless exercise provision permitting Mr. Mistarz to pay the purchase price for any shares acquired by exercising the option by surrendering to the Company a number of shares of common stock having an aggregate market value equal to the purchase price.

Daniel Parke

Effective June 30, 2006, Parke Industries, LLC (Parke Industries) entered into an employment agreement with Daniel Parke to serve as its president for a two-year period ending June 30, 2008. We also appointed him president and chief operating officer of Lime Energy Co. The employment agreement provides for a base salary of \$250,000 plus a monthly auto allowance of \$800. In addition, Mr. Parke is eligible to participate in an annual bonus plan with certain other management employees as determined by the Board of Directors. The employment contract also provides that Mr. Parke is granted ten year options to purchase 46,667 shares of our common stock at \$1.10 per share. These options vest 15,555 on the effective date of the agreement, 15,556 shares on the first anniversary of the agreement and 15,556 on the second anniversary of the agreement. These options will otherwise expire on June 30, 2016, except as described below. The employment agreement also imposes confidentiality obligations on Mr. Parke.

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Under his employment agreement, Mr. Parke is entitled to certain benefits if his employment terminates for certain reasons. If Mr. Parke should die prior to June 30, 2008, all of his unvested stock options for Company common stock would immediately vest. In addition, all such stock options and any previously vested stock options, would be exercisable for a period of one year following the date of death.

If Mr. Parke should become permanently disabled (such that he could not perform his duties for 180 consecutive days or for 180 days in any period of 12 consecutive months), Parke Industries would have the right to terminate his employment, then any stock options for Company common stock which were then already vested would be exercisable for a period of 90 days following such termination.

If Mr. Parke should terminate his employment prior to June 30, 2008 for reasons other than death, disability or uncured default by the Company under the agreement, then any vested stock options for Company common stock as of the date of termination shall be exercisable for 90 days following the date of termination.

If Parke Industries should terminate Mr. Parke's employment prior to June 30, 2008, for any reason other than death, disability or Due Cause, or if Mr. Parke should choose to terminate his employment because Parke Industries defaulted in its obligations under the agreement and failed to cure such default after notice, then all unvested stock options which are scheduled to vest within one year of the date of termination will immediately vest. In addition, all such stock options and any previously vested stock options, would be exercisable for a period of one year following the date of termination. Additionally, Parke Industries will pay Mr. Parke, as severance compensation, (i) six months salary at his then current rate, in installments in accordance with Parke Industries' regular payroll, plus (ii) any bonus earned as of the termination date, in accordance with the terms of such bonus, plus (iii) any accrued unused vacation (which will be paid on the next regular payroll date).

Due Cause is defined in Mr. Parke's agreement in terms substantially similar to those under David Asplund's employment agreement.

In addition to the foregoing, upon occurrence of a Change of Control all stock options granted to Mr. Parke by the Company pursuant to the agreement shall immediately vest and become exercisable. Change of Control shall be deemed to have occurred when (i) the Company is merged or consolidated with another entity which is not then controlled by the Company and, as a result of such merger or consolidation, at 51% of the Company's common stock is controlled by another entity, or (ii) a majority of the Company's assets are sold or otherwise transferred to another entity that is not then controlled by or affiliated with the Company.

Also effective on June 30, 2006, the Company, Parke Industries, LLC and Mr. Parke entered into a non-competition agreement which imposes on Mr. Parke non-competition obligations until June 30, 2008. This non-competition obligation is not separately compensated and was part of the consideration in the acquisition of Parke P.A.N.D.A. Corporation.

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John Mitola

Effective January 1, 2003, we entered into an employment agreement with John Mitola for a three-year period ending on December 31, 2005. This agreement, which was structured to place more emphasis on achieving important corporate milestones, reduced Mr. Mitola's base salary to \$250,000 per year, but provided for a discretionary bonus of up to one hundred percent of his annual salary payable if he met or exceeded certain annual goals as established by the Board of Directors, and a guaranteed bonus of \$250,000 upon the achievement of two consecutive calendar quarters of positive net income by the Company (such net income to be that as reflected in the Company's quarterly reports filed with the Securities and Exchange Commission). The agreement also provided for a monthly automobile allowance of \$550.00 and the reimbursement of Mr. Mitola's business-related expenses.

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As part of the employment agreement, we granted to Mr. Mitola an option to purchase 50,000 shares of our common stock at a price per share of \$12.60, which was equal to the average closing price of the Company's common stock as measured over the thirty (30) trading day period prior to the effective date of the contract. The option granted vested in amounts of 16,667 shares on each December 31st of 2003, 2004 and 2005, except on a change of control in which case all the options would have immediately vest. Except as specifically set forth in the employment agreement, such options are governed by the Company's 2001 Stock Incentive Plan.

The employment agreement imposed on Mr. Mitola non-competition, non-solicitation and confidentiality obligations.

Mr. Mitola resigned from the Company in January 2006.

POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL

The following table show potential payments to the name individuals under existing contracts, agreements, plans or arrangements, whether written or unwritten, for various scenarios involving a change-in-control or termination of employment assuming a December 31, 2006 termination date and, where applicable, using the closing price of our common stock of \$0.90 per share.

Name	Voluntary	Involuntary Termination	Involuntary Termination	Change in	Death	Disability
	Termination	-	-	Control		
	(1)	Not For Cause	For Cause	(4)	(5)	(5)
	(1)	(2)	(3)	(4)	(5)	(5)
David R. Asplund	\$ 0	\$ 142,500	\$ 0	\$ 0	\$ 0	\$ 0
Anna Baluyot	(6)	(6)	(6)	(6)	(6)	(6)
Jeffrey R. Mistarz	\$ 4,038	\$ 109,038	\$ 4,038	\$ 0	\$ 4,038	\$ 4,038
John P. Mitola	(7)	(7)	(7)	(7)	(7)	(7)
Daniel W. Parke	\$ 19,231	\$ 144,231	\$ 19,231	\$ 0	\$ 19,231	\$ 19,231
Leonard Pisano	\$ 12,981	\$ 312,981	\$ 12,981	\$ 0	\$ 12,981	\$ 12,981

(1) None of the listed persons are entitled to more than accrued but unpaid salary and vacation upon a voluntary termination of their employment.

(2) Under the terms of their employment contracts, Messrs. Asplund, Mistarz and Parke are entitled to any accrued but unpaid salary and vacation as well

as six months severance pay for an involuntary termination of their employment without cause.

Mr. Pisano would be entitled to any accrued but unpaid salary and vacation and would be paid through May 3, 2008, the end of period covered under his employment contract.

(3) None of the listed persons are entitled to more than accrued but unpaid salary and vacation upon an involuntary termination for cause.

(4) None of the listed persons would be entitled to any payments upon a change of control unless they were involuntarily terminated without cause, but upon a change of control the unvested options held by Messrs. Asplund, Mistarz, Parke and Pisano would immediately vest. None of the options held by these individuals were in the money as of

December 31,
2006.

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- (5) None of the listed persons are entitled to more than accrued but unpaid salary and vacation upon their death or permanent disability, but upon a upon such an event the unvested options held by Messrs. Asplund, Mistarz, Parke and Pisano would immediately vest. None of the options held by these individuals were in the money as of December 31, 2006.
- (6) Ms. Baluyot resigned from the Company on November 10, 2006.
- (7) Mr. Mitola resigned from the Company effective January 22, 2006.

Table of Contents**GRANTS OF PLAN-BASED AWARDS TABLE**

The following table sets forth certain information with respect to options granted during or for the fiscal year ended December 31, 2006 to each of executive officers and principal officers listed in the Summary Compensation Table.

(a)	(b)	(c)	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			(j)	(k)	(l)	(m)
			(d)	(e)	(f)	(g)	(h)	(i)				
Name	Grant Date	Committee Action Date	Threshold Target (\$)	Maximum Target (\$)	Threshold Target (#)	Maximum Target (#)	Units or Shares	Underlying Options (#)	Exercise Price or Base Price of Stock or Securities (\$/sh)	Fair Value of Stock and Option Awards (\$)	Grant Date	Fair Value of Stock and Option Awards (\$)
Dave R. Asplund	01/23/2006	01/22/2006					33,333		\$ 9.30	\$ 184,665		
	06/12/2006	01/22/2006					66,667		\$ 9.30	\$ 65,334		
	06/12/2006	01/22/2006					100,000		\$ 0.96	\$ 174,000		
	06/12/2006	01/22/2006					100,000		(1)	\$ 176,000		
	07/11/2006	07/05/2006					1,500,000		\$ 1.02	\$ 1,155,000		
	07/11/2006	07/05/2006					2,800,000		(1)	\$ 2,226,000		
Anna Baluyot	07/11/2006	07/05/2006					75,000		\$ 1.02	\$ 56,250		
Jeffrey R. Mistarz	07/11/2006	07/05/2006					750,000		\$ 1.02	\$ 585,000		
	08/15/2006	08/15/2006					300,000		\$ 1.00	\$ 211,000		
John P. Mitola												
Daniel W. Parke	07/03/2006	06/29/2006					46,667		\$ 1.10	\$ 37,334		
	07/11/2006	07/05/2006					653,333		\$ 1.02	\$ 509,600		
Leonard Pisano	07/11/2006	07/05/2006					1,350,000		\$ 1.02	\$ 1,053,000		

- (1) The price of these options was set by the Board of Directors on January 26, 2007 at \$0.96 per share. This price was determined to be the higher of (x) the average closing price of our common stock as measured over the thirty (30) trading day period prior to January 22, 2007, or (y) the closing price of our common stock on January 22, 2007.
- (2) The exercise price was not lower than the market price of our common stock on the grant date for any of the options listed, except that the exercise price for the options granted to Mr. Asplund on June 12, 2006 were set during January 2007 based on the formula described in item (1) above.

Table of Contents**OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END**

The following table includes certain information with respect to the value of all unexercised options previously awarded to the executive officers named above at December 31, 2006.

(a)	Option Awards					Stock Awards			
	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Name	Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Market Value of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested	Equity Incentive Plan Awards: Number of Shares, Units or Other Rights That Have Not Vested	Equity Incentive Plan Awards: Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested
David R. Asplund	1,500,000	2,800,000							
				(1)	07/11/2016				
				\$ 1.02	07/11/2016				
		100,000		\$ 0.96	01/23/2016				
		100,000		(1)	01/23/2016				
		100,000		\$ 9.30	01/23/2016				
	1,112	555		\$ 15.00	06/10/2015				
	1,666			\$ 27.75	06/10/2014				
	1,667			\$ 15.00	06/10/2013				
	5,000			\$ 17.55	06/10/2012				
Anna Baluyot	3,334			\$ 17.25	12/27/2014				
	5,000			\$ 35.40	01/01/2014				
	666			\$ 30.75	12/30/2013				
Jeffrey R. Mistarz	100,000	200,000		\$ 1.00	08/15/2016				
	250,000	500,000		\$ 1.02	07/11/2016				
	26,667			\$ 15.00	12/31/2012				

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	13,332		\$ 105.00	12/31/2009
Daniel W. Parke	217,765	435,568	\$ 1.02	07/11/2016
	15,555	31,112	\$ 1.10	06/30/2016
	3,334	1,666	\$ 15.00	10/05/2015
Leonard Pisano	450,000	900,000	\$ 1.02	07/11/2016
	13,889	17,778	\$ 15.00	05/03/2015
John P. Mitola	66,667		\$ 105.00	12/31/2009

(1) The option price on these options was set at \$0.96 per shares by the Board of Directors on January 26, 2007. This price was determined to be the higher of (x) the average closing price of our common stock as measured over the thirty (30) trading day period prior to January 22, 2007, or (y) the closing price of our common stock on January 22, 2007.

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Securities Under Equity Compensation Plans

Stock Options and Incentive Compensation

During the Company's annual meeting of stockholders held on August 30, 2001, our stockholders approved the adoption of the 2001 Stock Incentive Plan (the Plan), which provided that up to 53,333 shares of the Company's Common Stock, par value \$0.0001, may be issued under the Plan to certain employees of the Company or any of its subsidiaries and to consultants and directors who are not employees. In addition, the Plan provides for an additional number of shares of Common Stock to be reserved for issuance under the Plan on January 1 of each succeeding year, beginning January 1, 2002, in an amount equal to the lesser of (i) 5% of the number of outstanding shares of Common Stock, or (ii) 33,333 shares. At the annual meeting held on June 7, 2006, our stockholders approved an amendment to the Plan to increase the number of shares reserved for issuance under the plan by 400,000 shares and to increase the additional shares issued each January 1st to the lesser of (i) 5% of the number of outstanding shares of Common Stock, or (ii) 133,333 shares. (All quantities have been adjusted for the reverse split announced in June 2006.) The awards to be granted under the Plan may be incentive stock options eligible for favored treatment under Section 422 of the Internal Revenue code of 1986, as amended from time to time, or non-qualified options that are not eligible for such treatment, or stock of the Company, which may be subject to contingencies or restrictions, as well as grants of stock appreciation rights or grants of shares of Common Stock. Approximately 78 employees and officers of the Company and its subsidiary are currently eligible to participate in the Plan.

As of December 31, 2006, there were 620,000 shares of Common Stock reserved under the Plan. The Company granted options to purchase 350,667 under the Plan during 2006, and options to purchase 450,138 shares were outstanding under the Plan as of December 31, 2006. During 2006 the Company issued options to purchase 9,666,667 shares outside of the Plan to employees and directors. 2006 grants to directors are described under Directors Compensation.

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The following information reflects certain information about our equity compensation plans as of December 31, 2006:

	Equity Compensation Plan Information		
	(a)	(b)	(c)
Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders (1)	450,138	\$6.71	169,862
Equity compensation plans not approved by security holders (2)(3)	10,609,466	\$3.92	
Total	11,059,604	\$4.03	169,862

(1) The 2001 Employee Stock Incentive Plan (Plan) which was originally approved by stockholders at the Company's 2001 Annual Meeting of Stockholders was amended at our 2006 Annual Meeting of Stockholders. The amendment to the Plan increased the number of shares reserved for issuance under the Plan to 620,000 shares of the

Company's
Common Stock,
which
automatically
increases by
133,333 shares
on each
January 1,
beginning
January 1, 2007.
(All prices and
quantities are
adjusted for the
1 for 15 reverse
stock split
announced
during
June 2006.)

- (2) Prior to the adoption of the 2001 Employee Stock Incentive Plan, the Company had granted to certain of its employees stock options on a discretionary basis. These grants were not made pursuant to any formal plan. Grants made to employees pursuant to this method were discontinued following adoption of the Plan.
- (3) The Company grants stock options to its non-employee directors pursuant to a Directors Stock

Option Plan
(See
Compensation
of Directors),
which grants are
included in this
category.

Table of Contents**COMPENSATION OF DIRECTORS**

Effective April 1, 2000, the Company adopted a stock option plan for all non-employee directors, which is separate and distinct from the 2001 Stock Incentive Plan. The plan was amended on July 11, 2006 to provide that eligible directors receive an initial option grant upon being appointed to our Board of Directors to purchase 100,000 shares of our common stock, and a grant of options to purchase an additional 50,000 shares on the first day of January beginning on the second January following the date the Director became an eligible director. These options have an exercise price equal to the closing price of our common stock on the grant date and a term of ten years. The initial options vest on the first day of January following the initial grant date or six months following the initial grant date, whichever is later, if the individual is still a director on the vesting date. All future grants vest in two equal amounts, one amount on the grant date and the balance on the anniversary of the grant date, if the individual is still a member of the Board of Directors on such anniversary date.

The Company granted options to purchase 520,001 shares under the directors' stock option plan during 2006, and options to purchase 605,559 shares were outstanding under this plan as of December 31, 2006.

Directors who are also employees of the Company receive no additional compensation for their services as directors. Directors who are not employees of the Company, in addition to stock options, are reimbursed for travel expenses and other out-of-pocket costs incurred in connection with their attendance at the meetings.

DIRECTOR COMPENSATION TABLE

The following table provides compensation information for the year ended December 31, 2006 for each member of our Board of Directors.

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Deferred Compensation Earnings	All Other Compensation (\$)	Total (\$)
David R. Asplund (2)							
Gregory T. Barnum William R. Carey, Jr.			103,097				103,097
Joseph Desmond (4)			103,097			62,500 (3)	165,597
Tarrant County Cultural Education Facilities Finance Corp.	650	664,274		4,900	5,626,082		

(CHRISTUS
Health);
Series 2008 A,
Ref. RB
(INS-AGC) ^(b)

See accompanying notes which are an integral part of this schedule.

Invesco Trust for Investment Grade Municipals

	Interest	Maturity	Principal	
	Rate	Date	Amount	Value
			(000)	
Texas (continued)				
Texas (State of) Transportation Commission; Series 2008, Mobility Fund Unlimited Tax GO Bonds ^(c)	5.00%	04/01/28	\$ 8,700	\$ 9,803,247
Series 2012 A, Ref. First Tier Turnpike System RB	5.00%	08/15/41	3,780	3,997,312
Texas (State of) Turnpike Authority (Central Texas Turnpike System); Series 2002, CAB RB (INS-AMBAC) ^{(b)(g)}	0.00%	08/15/29	5,000	2,027,350
Texas A&M University System Board of Regents; Series 2009 A, Financing System RB	5.00%	05/15/28	4,000	4,629,160
Texas Municipal Gas Acquisition & Supply Corp. I; Series 2008 D, Sr. Lien Gas Supply RB	6.25%	12/15/26	5,970	7,398,084
Texas Municipal Gas Acquisition & Supply Corp. III; Series 2012, Gas Supply RB	5.00%	12/15/27	1,500	1,631,355
Series 2012, Gas Supply RB	5.00%	12/15/28	1,410	1,521,728
Series 2012, Gas Supply RB	5.00%	12/15/29	1,325	1,419,062
Series 2012, Gas Supply RB	5.00%	12/15/31	4,860	5,140,130
Texas Private Activity Bond Surface Transportation Corp. (NTE Mobility Partners LLC North Tarrant Express Management Lanes); Series 2009, Sr. Lien RB	6.88%	12/31/39	2,000	2,350,660
Texas Private Activity Bond Surface Transportation Corp. (NTE Mobility Partners LLC); Series 2013, Sr. Lien RB ^(f)	7.00%	12/31/38	1,500	1,864,755
Tyler Health Facilities Development Corp. (East Texas Medical Center Regional Healthcare System); Series 2007 A, Ref. & Improvement Hospital RB	5.38%	11/01/37	3,285	3,339,630
				157,385,750
Utah 0.14%				
Utah (State of) Charter School Finance Authority (Summit Academy); Series 2007 A, Charter School RB	5.80%	06/15/38	1,100	1,119,723
Virgin Islands 0.39%				
Virgin Islands (Government of) Public Finance Authority (Matching Fund Loan Note); Series 2010 A, Sr. Lien RB	5.00%	10/01/25	2,775	3,037,210
Virginia 1.24%				
Tobacco Settlement Financing Corp.; Series 2005, Asset-Backed RB ^(h)	5.50%	06/01/26	385	397,871
Virginia (State of) Small Business Financing Authority (Elizabeth River Crossings Opco, LLC); Series 2012, Sr. Lien RB ^(f)	5.50%	01/01/42	3,650	3,894,951
Series 2012, Sr. Lien RB ^(f)	6.00%	01/01/37	1,000	1,107,830

Virginia (State of) Small Business Financing Authority (Express Lanes, LLC); Series 2012, Sr. Lien RB ^(f)	5.00%	07/01/34	3,220	3,322,396
White Oak Village Shops Community Development Authority; Series 2007, Special Assessment RB	5.30%	03/01/17	895	959,243
				9,682,291
Washington 4.67%				
Chelan (County of) Public Utility District No. 1; Series 2011 A, Ref. Consolidated RB ^(f)	5.50%	07/01/25	1,080	1,251,191
Series 2011 A, Ref. Consolidated RB ^(f)	5.50%	07/01/26	1,175	1,352,355
Goat Hill Properties (Government Office Building); Series 2005, Lease RB (INS-NATL) ^(b)	5.00%	12/01/33	1,000	1,024,450
Kalispel Tribe of Indians; Series 2008, RB	6.63%	01/01/28	1,950	1,884,753
Seattle (Port of); Series 2012 A, Ref. Intermediate Lien RB	5.00%	08/01/30	1,455	1,640,236
Series 2012 A, Ref. Intermediate Lien RB	5.00%	08/01/33	1,500	1,668,180
Washington (State of) (SR 520 Corridor Program - Toll Revenue); Series 2011 C, Motor Vehicle Fuel Unlimited Tax GO Bonds ^(c)	5.00%	06/01/32	2,000	2,274,900
Series 2011 C, Motor Vehicle Fuel Unlimited Tax GO Bonds ^(c)	5.00%	06/01/41	13,370	14,750,051
Washington (State of) Health Care Facilities Authority (Catholic Health Initiatives); Series 2011 A, RB ^(c)	5.00%	02/01/41	3,495	3,699,737
Washington (State of) Health Care Facilities Authority (Swedish Health Services); Series 2011 A, RB ^{(d)(h)}	6.25%	05/15/21	1,525	1,984,193
Washington (State of) Housing Finance Commission (Wesley Homes); Series 2008, Non-Profit CR RB ^(e)	6.00%	01/01/27	2,325	2,416,186
Washington (State of) Tobacco Settlement Authority; Series 2013, Ref. RB	5.25%	06/01/33	2,250	2,497,567
				36,443,799

	Interest	Maturity	Principal	
	Rate	Date	(000)	Value
West Virginia 1.08%				
Ohio (County of) (Fort Henry Centre Financing District); Series 2007 A, Tax Increment Allocation RB Pleasants (County of) Commission (Allegheny Energy Supply Co., LLC Pleasants Station); Series 2007 F, Ref. PCR	5.63%	06/01/22	\$ 250	\$ 262,185
West Virginia (State of) Hospital Finance Authority (Thomas Health System); Series 2008, RB	5.25%	10/15/37	1,290	1,330,919
Series 2008, RB	6.00%	10/01/20	1,500	1,620,735
West Virginia (State of) Hospital Finance Authority (West Virginia United Health System Obligated Group); Series 2009 C, Ref. & Improvement RB	6.25%	10/01/23	1,695	1,795,141
Series 2009 C, Ref. & Improvement RB	5.50%	06/01/34	1,630	1,767,523
	5.50%	06/01/39	1,535	1,655,052
				8,431,555
Wisconsin 1.67%				
Southeast Wisconsin Professional Baseball Park District; Series 1998 A, Ref. Sales Tax RB ^(h)	5.50%	12/15/20	2,000	2,472,000
Superior (City of) (Superior Water, Light & Power Co.); Series 2007 A, Ref. Collateralized Utility RB ^(f)	5.38%	11/01/21	700	756,028
Series 2007 B, Collateralized Utility RB ^(f)	5.75%	11/01/37	625	651,187
Wisconsin (State of) Health & Educational Facilities Authority (Aurora Health Care, Inc.); Series 2009 B, RB ^(d)	5.13%	08/15/16	1,400	1,536,976
Wisconsin (State of) Health & Educational Facilities Authority (Prohealth Care, Inc. Obligated Group); Series 2009, RB	6.63%	02/15/39	1,825	2,136,546
Wisconsin (State of) Housing & Economic Development Authority; Series 2008 A, Home Ownership RB ^{(c)(f)}	5.30%	09/01/23	3,460	3,649,712
Wisconsin (State of); Series 2009 A, General Fund Annual Appropriation RB	5.38%	05/01/25	1,545	1,823,656
				13,026,105
Wyoming 0.52%				
Sweetwater (County of) (FMC Corp.); Series 2005, Ref. Solid Waste Disposal RB ^(f)	5.60%	12/01/35	2,000	2,049,160
Sweetwater (County of) (Idaho Power Co.); Series 2006, Ref. PCR	5.25%	07/15/26	1,850	2,030,320
				4,079,480
TOTAL INVESTMENTS ⁽¹⁾ 162.20% (Cost \$1,173,631,958)				1,266,022,617

FLOATING RATE NOTE OBLIGATIONS (28.74)%	
Notes with interest and fee rates ranging from 0.58% to 0.94% at 5/31/14 and contractual maturities of collateral ranging from 06/01/22 to 10/01/52 (See Note 1D) ^(m)	(224,315,000)
VARIABLE RATE MUNI TERM PREFERRED SHARES (35.01)%	(273,300,000)
OTHER ASSETS LESS LIABILITIES 1.55%	12,112,557
NET ASSETS APPLICABLE TO COMMON SHARES 100.00%	\$ 780,520,174

Investment Abbreviations:

ACA	ACA Financial Guaranty Corp.
AGC	Assured Guaranty Corp.
AGM	Assured Guaranty Municipal Corp.
AMBAC	American Municipal Bond Assurance Corp.
BHAC	Berkshire Hathaway Assurance Corp.
CAB	Capital Appreciation Bonds
CEP	Credit Enhancement Provider
Conv.	Convertible
COP	Certificates of Participation
CR	Custodial Receipts
GNMA	Government National Mortgage Association
GO	General Obligation
IDR	Industrial Development Revenue Bonds
INS	Insurer
Jr.	Junior
MFH	Multi-Family Housing
NATL	National Public Finance Guarantee Corp.
PCR	Pollution Control Revenue Bonds
PILOT	Payment-in-Lieu-of-Tax
RAC	Revenue Anticipation Certificates
RB	Revenue Bonds
Ref.	Refunding
Sec.	Secured
SGI	Syncora Guarantee, Inc.
Sr.	Senior
Sub.	Subordinated
TEMPS	Tax-Exempt Mandatory Paydown Securities

See accompanying notes which are an integral part of this schedule.

Invesco Trust for Investment Grade Municipals

Notes to Schedule of Investments:

- (a) Calculated as a percentage of net assets. Amounts in excess of 100% are due to the Trust's use of leverage.
- (b) Principal and/or interest payments are secured by the bond insurance company listed.
- (c) Underlying security related to Dealer Trusts entered into by the Trust. See Note 1D.
- (d) Security has an irrevocable call by the issuer or mandatory put by the holder. Maturity date reflects such call or put.
- (e) Security purchased or received in a transaction exempt from registration under the Securities Act of 1933, as amended (the 1933 Act). The security may be resold pursuant to an exemption from registration under the 1933 Act, typically to qualified institutional buyers. The aggregate value of these securities at May 31, 2014 was \$9,261,455, which represented 1.19% of the Trust's Net Assets.
- (f) Security subject to the alternative minimum tax.
- (g) Zero coupon bond issued at a discount.
- (h) Advance refunded; secured by an escrow fund of U.S. Government obligations or other highly rated collateral.
- (i) Defaulted security. Currently, the issuer is partially or fully in default with respect to interest payments. The aggregate value of these securities at May 31, 2014 was \$1,161,212, which represented less than 1% of the Trust's Net Assets.
- (j) Convertible CAB. The interest rate shown represents the coupon rate at which the bond will accrue at a specified future date.
- (k) Interest or dividend rate is redetermined periodically. Rate shown is the rate in effect on May 31, 2014.
- (l) This table provides a listing of those entities that have either issued, guaranteed, backed or otherwise enhanced the credit quality of more than 5% of the securities held in the portfolio. In instances where the entity has guaranteed, backed or otherwise enhanced the credit quality of a security, it is not primarily responsible for the issuer's obligations but may be called upon to satisfy the issuer's obligations.

Entities	Percentage
Assured Guaranty Corp.	6.3%

Assured Guaranty Municipal Corp.

6.2

^(m) Floating rate note obligations related to securities held. The interest and fee rates shown reflect the rates in effect at May 31, 2014. At May 31, 2014, the Trust's investments with a value of \$401,633,383 are held by Dealer Trusts and serve as collateral for the \$224,315,000 in the floating rate note obligations outstanding at that date.

See accompanying notes which are an integral part of this schedule.

Invesco Trust for Investment Grade Municipals

Notes to Quarterly Schedule of Portfolio Holdings

May 31, 2014

(Unaudited)

NOTE 1 Significant Accounting Policies

A. Security Valuations Securities, including restricted securities, are valued according to the following policy. Securities are fair valued using an evaluated quote provided by an independent pricing service approved by the Board of Trustees. Evaluated quotes provided by the pricing service may be determined without exclusive reliance on quoted prices, and may reflect appropriate factors such as institution-size trading in similar groups of securities, developments related to specific securities, dividend rate (for unlisted equities), yield (for debt obligations), quality, type of issue, coupon rate (for debt obligations), maturity (for debt obligations), individual trading characteristics and other market data. Debt obligations are subject to interest rate and credit risks. In addition, all debt obligations involve some risk of default with respect to interest and/or principal payments.

Securities for which market quotations either are not readily available or became unreliable are valued at fair value as determined in good faith by or under the supervision of the Trust's officers following procedures approved by the Board of Trustees. Some of the factors which may be considered in determining fair value are fundamental analytical data relating to the investment; the nature and duration of any restrictions on transferability or disposition; trading in similar securities by the same issuer or comparable companies; relevant political, economic or issuer specific news; and other relevant factors under the circumstances.

The Trust may invest in securities that are subject to interest rate risk, meaning the risk that the prices will generally fall as interest rates rise and, conversely, the prices will generally rise as interest rates fall. Specific securities differ in their sensitivity to changes in interest rates depending on their individual characteristics. Changes in interest rates may result in increased market volatility, which may affect the value and/or liquidity of certain of the Trust's investments.

Valuations change in response to many factors including the historical and prospective earnings of the issuer, the value of the issuer's assets, general economic conditions, interest rates, investor perceptions and market liquidity. Because of the inherent uncertainties of valuation, the values reflected in the financial statements may materially differ from the value received upon actual sale of those investments.

B. Securities Transactions and Investment Income Securities transactions are accounted for on a trade date basis. Realized gains or losses on sales are computed on the basis of specific identification of the securities sold. Interest income (net of withholding tax, if any) is recorded on the accrual basis from settlement date. Dividend income (net of withholding tax, if any) is recorded on the ex-dividend date. Bond premiums and discounts are amortized and/or accreted for financial reporting purposes.

The Trust may periodically participate in litigation related to Trust investments. As such, the Trust may receive proceeds from litigation settlements. Any proceeds received are included in the Statement of Operations as realized gain (loss) for investments no longer held and as unrealized gain (loss) for investments still held.

Brokerage commissions and mark ups are considered transaction costs and are recorded as an increase to the cost basis of securities purchased and/or a reduction of proceeds on a sale of securities. Such transaction costs are included in the determination of net realized and unrealized gain (loss) from investment securities reported in the Statement of Operations and the Statement of Changes in Net Assets and the net realized and unrealized gains (losses) on securities per share in the Financial Highlights. Transaction costs are included in the calculation of the Trust's net asset value

and, accordingly, they reduce the Trust's total returns. These transaction costs are not considered operating expenses and are not reflected in net investment income reported in the Statement of Operations and Statement of Changes in Net Assets, or the net investment income per share and ratios of expenses and net investment income reported in the Financial Highlights, nor are they limited by any expense limitation arrangements between the Trust and the investment adviser.

C. Country Determination For the purposes of making investment selection decisions and presentation in the Schedule of Investments, the investment adviser may determine the country in which an issuer is located and/or credit risk exposure based on various factors. These factors include the laws of the country under which the issuer is organized, where the issuer maintains a principal office, the country in which the issuer derives 50% or more of its total revenues and the country that has the primary market for the issuer's securities, as well as other criteria. Among the other criteria that may be evaluated for making this determination are the country in which the issuer maintains 50% or more of its assets, the type of security, financial guarantees and enhancements, the nature of the collateral and the sponsor organization. Country of issuer and/or credit risk exposure has been determined to be the United States of America, unless otherwise noted.

Invesco Trust for Investment Grade Municipals

D. Floating Rate Note Obligations The Trust invests in inverse floating rate securities, such as Residual Interest Bonds (RIBs) or Tender Option Bonds (TOBs) for investment purposes and to enhance the yield of the Trust. Inverse floating rate investments tend to underperform the market for fixed rate bonds in a rising interest rate environment, but tend to outperform the market for fixed rate bonds when interest rates decline or remain relatively stable. Such transactions may be purchased in the secondary market without first owning the underlying bond or by the sale of fixed rate bonds by the Trust to special purpose trusts established by a broker dealer (Dealer Trusts) in exchange for cash and residual interests in the Dealer Trusts' assets and cash flows, which are in the form of inverse floating rate securities. The Dealer Trusts finance the purchases of the fixed rate bonds by issuing floating rate notes to third parties and allowing the Trust to retain residual interests in the bonds. The floating rate notes issued by the Dealer Trusts have interest rates that reset weekly and the floating rate note holders have the option to tender their notes to the Dealer Trusts for redemption at par at each reset date. The residual interests held by the Trust (inverse floating rate investments) include the right of the Trust (1) to cause the holders of the floating rate notes to tender their notes at par at the next interest rate reset date, and (2) to transfer the municipal bond from the Dealer Trusts to the Trust, thereby collapsing the Dealer Trusts. Recently published final rules implementing section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Volcker Rule) prohibit banking entities from engaging in proprietary trading of certain instruments and limit such entities' investments in, and relationships with, covered funds. These rules may preclude banking entities from sponsoring and/or providing services for existing TOB trust programs. There can be no assurances that TOB trusts can be restructured substantially similar to their present form, that new sponsors of TOB trusts would begin providing these services, or that alternative forms of leverage will be available to the Trust in order to maintain current levels of leverage. Any alternative forms of leverage may be less advantageous to the Trust, and may adversely affect the Trust's net asset value, distribution rate and ability to achieve its investment objective. The ultimate impact of these rules on the TOBs market and the municipal market generally is not yet certain.

TOBs are presently classified as private placement securities. Private placement securities are subject to restrictions on resale because they have not been registered under the Securities Act of 1933, as amended (the 1933 Act), or are otherwise not readily marketable. As a result of the absence of a public trading market for these securities, they may be less liquid than publicly traded securities. Although these securities may be resold in privately negotiated transactions, the prices realized from these sales could be less than those originally paid by the Trust or less than what may be considered the fair value of such securities.

The Trust accounts for the transfer of bonds to the Dealer Trusts as secured borrowings, with the securities transferred remaining in the Trust's investment assets, and the related floating rate notes reflected as Trust liabilities under the caption *Floating rate note obligations* on the Statement of Assets and Liabilities. The Trust records the interest income from the fixed rate bonds under the caption *Interest* and records the expenses related to floating rate obligations and any administrative expenses of the Dealer Trusts a component of *Interest, facilities and maintenance fees* on the Statement of Operations.

The Trust generally invests in inverse floating rate securities that include embedded leverage, thus exposing the Trust to greater risks and increased costs. The primary risks associated with inverse floating rate securities are varying degrees of liquidity and the changes in the value of such securities in response to changes in market rates of interest to a greater extent than the value of an equal principal amount of a fixed rate security having similar credit quality, redemption provisions and maturity which may cause the Trust's net asset value to be more volatile than if it had not invested in inverse floating rate securities. In certain instances, the short-term floating rate interests created by the special purpose trust may not be able to be sold to third parties or, in the case of holders tendering (or putting) such interests for repayment of principal, may not be able to be remarketed to third parties. In such cases, the special purpose trust holding the long-term fixed rate bonds may be collapsed. In the case of RIBs or TOBs created by the contribution of long-term fixed income bonds by the Trust, the Trust will then be required to repay the principal amount of the tendered securities. During times of market volatility, illiquidity or uncertainty, the Trust could be required to sell other portfolio holdings at a disadvantageous time to raise cash to meet that obligation.

E. Other Risks The value of, payment of interest on, repayment of principal for and the ability to sell a municipal security may be affected by constitutional amendments, legislative enactments, executive orders, administrative regulations, voter initiatives and the economics of the regions in which the issuers are located.

Since many municipal securities are issued to finance similar projects, especially those relating to education, health care, transportation and utilities, conditions in those sectors can affect the overall municipal securities market and a Trust's investments in municipal securities.

There is some risk that a portion or all of the interest received from certain tax-free municipal securities could become taxable as a result of determinations by the Internal Revenue Service.

Invesco Trust for Investment Grade Municipals

NOTE 2 Additional Valuation Information

Generally Accepted Accounting Principles (GAAP) defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, under current market conditions. GAAP establishes a hierarchy that prioritizes the inputs to valuation methods, giving the highest priority to readily available unadjusted quoted prices in an active market for identical assets (Level 1) and the lowest priority to significant unobservable inputs (Level 3), generally when market prices are not readily available or are unreliable. Based on the valuation inputs, the securities or other investments are tiered into one of three levels.

Changes in valuation methods may result in transfers in or out of an investment s assigned level:

- Level 1 Prices are determined using quoted prices in an active market for identical assets.
- Level 2 Prices are determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk, yield curves, loss severities, default rates, discount rates, volatilities and others.
- Level 3 Prices are determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used. Unobservable inputs reflect the Trust s own assumptions about the factors market participants would use in determining fair value of the securities or instruments and would be based on the best available information.

As of May 31, 2014, all of the securities in this Trust were valued based on Level 2 inputs (see the Schedule of Investments for security categories). The level assigned to the securities valuations may not be an indication of the risk or liquidity associated with investing in those securities. Because of the inherent uncertainties of valuation, the values reflected in the financial statements may materially differ from the value received upon actual sale of those investments.

NOTE 3 Investment Securities

The aggregate amount of investment securities (other than short-term securities, U.S. Treasury obligations and money market funds, if any) purchased and sold by the Trust during the three months ended May 31, 2014 was \$43,277,024 and \$36,207,837, respectively. Cost of investments on a tax basis includes the adjustments for financial reporting purposes as of the most recently completed federal income tax reporting period-end.

Unrealized Appreciation (Depreciation) of Investment Securities on a Tax Basis

Aggregate unrealized appreciation of investment securities	\$ 100,558,514
Aggregate unrealized (depreciation) of investment securities	(9,935,484)
Net unrealized appreciation of investment securities	\$ 90,623,030

Cost of investments for tax purposes is \$1,175,399,587.

Invesco Trust for Investment Grade Municipals

Item 2. Controls and Procedures.

- (a) As of May 23, 2014, an evaluation was performed under the supervision and with the participation of the officers of the Registrant, including the Principal Executive Officer (PEO) and Principal Financial Officer (PFO), to assess the effectiveness of the Registrant's disclosure controls and procedures, as that term is defined in Rule 30a-3(c) under the Investment Company Act of 1940 (Act), as amended. Based on that evaluation, the Registrant's officers, including the PEO and PFO, concluded that, as of May 23, 2014, the Registrant's disclosure controls and procedures were reasonably designed so as to ensure: (1) that information required to be disclosed by the Registrant on Form N-Q is recorded, processed, summarized and reported within the time periods specified by the rules and forms of the Securities and Exchange Commission; and (2) that material information relating to the Registrant is made known to the PEO and PFO as appropriate to allow timely decisions regarding required disclosure.
- (b) There have been no changes in the Registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the Act) that occurred during the Registrant's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Registrant's internal control over financial reporting.

Item 3. Exhibits.

Certifications of PEO and PFO as required by Rule 30a-2(a) under the Investment Company Act of 1940.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Registrant: Invesco Trust for Investment Grade Municipals

By: /s/ Colin Meadows
Colin Meadows
Principal Executive Officer

Date: July 29, 2014

Pursuant to the requirements of the Securities and Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

By: /s/ Colin Meadows
Colin Meadows
Principal Executive Officer

Date: July 29, 2014

By: /s/ Sheri Morris
Sheri Morris
Principal Financial Officer

Date: July 29, 2014

EXHIBIT INDEX

Certifications of Principal Executive Officer (PEO) and Principal Financial Officer (PFO) as required by Rule 30a-2(a) under the Investment Company Act of 1940, as amended.