LIME ENERGY CO.
Form 10-Q
August 10, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2010

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

For the transition period from to

Commission file number 001-16265

LIME ENERGY CO.

(Exact name of registrant as specified in its charter)

Delaware	**36-4197337**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1280 Landmeier Road, Elk Grove Village, Illinois 60007-2410
(Address of principal executive offices, including zip code)

(847) 437-1666
(Registrant s telephone number, including area code)

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

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

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

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

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

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

23,640,500 shares of the registrant s common stock, $.0001 par value per share, were outstanding as of August 9, 2010.

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LIME ENERGY CO.

FORM 10-Q

For The Quarter Ended June 30, 2010

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PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

Lime Energy Co.

Condensed Consolidated Balance Sheet

(Unaudited)

	June 30, 2010 (unaudited)	December 31, 2009 (1)
Assets		
Current assets		
Cash and cash equivalents	$ 15,676	$ 22,870
Restricted cash	3,801	500
Accounts receivable, net	17,749	19,330
Inventories	323	230
Costs and estimated earnings in excess of billings on uncompleted contracts	5,417	5,532
Prepaid expenses and other	1,073	752
Total Current Assets	44,039	49,214
Net Property and Equipment	1,893	1,917
Long Term Receivables	492	545
Intangibles, net	3,057	3,382
Goodwill	18,627	18,627
	$ 68,108	$ 73,685

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Lime Energy Co.

Condensed Consolidated Balance Sheet

(Unaudited)

	June 30, 2010 (unaudited)	December 31, 2009 (1)
Liabilities and Stockholders Equity		
Current liabilities		
Current maturities of long-term debt	$ 114	$ 187
Accounts payable	7,865	8,424
Accrued expenses	5,184	4,892
Billings in excess of costs and estimated earnings on uncompleted contracts	1,407	634
Customer deposits	766	799
Total Current Liabilities	15,336	14,936
Long-Term Debt, less current maturities	476	544
Total Liabilities	15,812	15,480
Stockholders Equity		
Common stock, $0.0001 par value; 50,000,000 shares authorized 23,640,440 and 23,510,622 issued and outstanding as of June 30, 2010 and December 31, 2009, respectively	2	2
Additional paid-in capital	182,480	181,665
Accumulated deficit	(130,186)	(123,462)
Total Stockholders Equity	52,296	58,205
	$ 68,108	$ 73,685

See accompanying notes to condensed consolidated financial statements

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(1) Derived from audited financial statements in the Company s annual report on Form 10-K for the year ended December 31, 2009

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Lime Energy Co.

Unaudited Condensed Consolidated Statements of Operations

(in thousands)

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Revenue	$ 17,508	$ 15,795	$ 29,321	$ 29,520
Cost of sales	13,319	12,953	23,273	23,873
Gross Profit	4,189	2,842	6,048	5,647
Selling, general and administrative	6,094	5,549	12,527	10,782
Amortization of intangibles	163	313	325	658
Operating Loss	(2,068)	(3,020)	(6,804)	(5,793)
Other Income (Expense)				
Interest income	48	30	98	63
Interest expense	(8)	(427)	(18)	(903)
Total other income (expense)	40	(397)	80	(840)
Loss from continuing operations before discontinued operations	(2,028)	(3,417)	(6,724)	(6,633)
Discontinued Operations:				
Loss from operation of discontinued business		(637)		(1,029)
Net Loss	(2,028)	(4,054)	(6,724)	(7,662)
Preferred Stock Dividends		(646)		(1,202)
Net Loss Available to Common Stockholders	$ (2,028)	$ (4,700)	$ (6,724)	$ (8,864)
Basic and diluted loss per common share from continuing operations	$ (0.09)	$ (0.31)	$ (0.28)	$ (0.65)
Discontinued operations		(0.05)		(0.09)
Basic and Diluted Loss Per Common Share	$ (0.09)	$ (0.36)	$ (0.28)	$ (0.74)
Weighted Average Common Shares Outstanding (in thousands)	23,609	13,069	23,601	12,049

See accompanying notes to condensed consolidated financial statements

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Lime Energy Co.

Statement of Condensed Consolidated Stockholders' Equity (Deficit)

(Unaudited)

	Common Shares		Common Stock		Additional Paid-in Capital		Accumulated Deficit		Total Stockholders Equity
Balance, December 31, 2009	**23,511**	**$**	**2**	**$**	**181,665**	**$**	**(123,462)**	**$**	**58,205**
Share based compensation					743				743
Shares issued for benefit plans and option exercises	129				72				72
Net loss for the six months ended June 30, 2010							(6,724)		(6,724)
Balance, June 30, 2010	**23,640**	**$**	**2**	**$**	**182,480**	**$**	**(130,186)**	**$**	**52,296**

See accompanying notes to condensed consolidated financial statements.

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Lime Energy Co.

Unaudited Condensed Consolidated Statements of Cash Flows

(in thousands)

Six Months Ended June 30,	2010	2009
Cash Flows from Operating Activities		
Net Loss	$ (6,724)	$ (7,662)
Adjustments to reconcile net loss to net cash used in operating activities, net of assets acquired		
Provision for bad debts	12	80
Share based compensation	743	910
Preferred stock dividends		(1,202)
Depreciation and amortization	571	1,095
Amortization of deferred financing costs		1
Amortization of issuance discount		495
Accrued dividend satisfied through the issuance of preferred stock		338
Accrued interest satisfied through the issuance of common stock		124
PIK notes issued for interest		21
Asset impairment		503
Loss on disposition of fixed assets	8	
Changes in assets and liabilities		
Accounts receivable	1,622	4,534
Inventories	(93)	(137)
Costs and estimated earnings in excess of billings on uncompleted contracts	115	(764)
Prepaid expenses and other	(321)	560
Accounts payable	(559)	(5,639)
Accrued expenses	292	311
Billings in excess of costs and estimated earnings on uncompleted contracts	773	856
Deferred revenue		(90)
Customer deposits	(33)	(424)
Net cash used in operating activities	(3,594)	(6,090)
Cash Flows From Investing Activities		
Acquisition costs, net of cash acquired		(614)
Proceeds from sale of fixed assets	1	11
Purchase of property and equipment	(231)	(202)
Increase in restricted cash	(3,301)	
Net cash used in investing activities	(3,531)	(805)
Cash Flows From Financing Activities		
Net (payments) advances on line of credit		(1,850)
Payments of long-term debt	(141)	(223)
Proceeds from issuance of common stock	72	10,703
Costs related to stock issuances		(796)
Net cash (used in) provided by financing activities	(69)	7,834

Net (Decrease) Increase in Cash and Cash Equivalents		**(7,194)**		**939**
Cash and Cash Equivalents, at beginning of period		**22,870**		**3,734**
Cash and Cash Equivalents, at end of period	**$**	**15,676**	**$**	**4,673**

See accompanying notes to condensed consolidated financial statements.

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As of June 30,	2010	2009
Supplemental Disclosure of Cash Flow Information (in thousands)		
Cash paid during the period for interest:		
- Continuing operations	$ 18	$ 282
- Discontinued operations		1
Interest obligation satisfied through the issuance of common stock		124
Accrued earn-out satisfied through the issuance of common stock		293
Satisfaction of accrued dividend through the issuance of 8,233 shares of series A-1 preferred stock		338
Extinguishment of line of credit		21
Issuance of line of credit note in satisfaction of interest payable		21
Cash paid for preferred dividends		506

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Lime Energy Co.

Notes to Unaudited Condensed Consolidated Financial Statements

Note 1 Basis of Presentation

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

The results of operations for the three months and six months ended June 30, 2010 and 2009 are not necessarily indicative of the results to be expected for the full year.

For further information, refer to the audited financial statements and the related footnotes included in the Lime Energy Co. Annual Report on Form 10-K for the year ended December 31, 2009.

The Company disposed of the assets of its Maximum Performance Group, Inc. (MPG) subsidiary on August 10, 2009 and has reported the operating results for this business as discontinued operations. Please see Note 4 for additional information regarding the discontinued operations.

Note 2 - Stock-Based Compensation

Stock Options

A committee of the Board of Directors grants stock options and restricted stock under the Company s 2008 Long Term Incentive Plan, as amended (the Plan). All of the options have been granted at a price equal to or greater than the market price of the Company s stock on the date of grant. Substantially all stock option grants outstanding under the Plan vest ratably over three years and expire 10 years from the date of grant. In addition to the Plan, the Company gives employees the right to purchase shares at a discount to the market price under its employee stock purchase plan (ESPP). During the second quarter of 2010 the Company issued options to certain employees that vest upon achievement of certain financial objectives in combination with a minimum market price for its common stock during a five year period (the Cliff Options). The Company assesses the probability of achieving these objectives at the end of each month and recognizes expense accordingly. . In addition to the Plan and the ESPP, the Board of Directors grants restricted stock to non-employee directors under the Company s 2010 Non-Employee Director Stock Plan (the Directors Plan). Restricted stock granted to date under the Directors Plan vests 50% on grant and 50% on the first anniversary of grant if the director is still serving on the Board of Directors on the vesting date.

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

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Lime Energy Co.

Notes to Unaudited Condensed Consolidated Financial Statements

The following table summarizes the Company s total share-based compensation expense for the three-month period ended June 30, 2010:

	Three months ended June 30, 2010			Three months ended June 30, 2009			
	Cost of Sales	SG&A	Total	Cost of Sales	SG&A	Discontinued Operations	Total
Stock options	$ 4	$ 263	$ 267	$ 20	$ 379	$ 2	$ 401
Restricted stock		90	90				
Employee Stock Purchse Plan		11	11		29		29
	$ 4	$ 364	$ 368	$ 20	$ 408	$ 2	$ 430

The following table summarizes the Company s total share-based compensation expense for the six-month period ended June 30, 2010:

	Six months ended June 30, 2010			Six months ended June 30, 2009			
	Cost of Sales	SG&A	Total	Cost of Sales	SG&A	Discontinued Operations	Total
Stock options	$ 9	$ 563	$ 572	$ 54	$ 806	$ 8	$ 868
Restricted stock		145	145				
Employee Stock Purchse Plan		26	26		42		42
	$ 9	$ 734	$ 743	$ 54	$ 848	$ 8	$ 910

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Weighted average fair-value per option granted	$ 1.96	$ 1.45	$ 1.99	$ 1.94
Significant assumptions (weighted average):				

Risk-free rate	0.16%	0.21%	0.13%	0.09%
Dividend yield	0.00%	0.00%	0.00%	0.00%
Expected volatility	80.3%	82.1%	81.2%	83.8%
Expected life (years) (1)	7.5	5.9	7.0	5.5
Expected turn-over rate	9.41%	17.00%	9.25%	12.31%
Expected exercise multiple	2.20	2.20	2.20	2.20

(1) The Company continues to use the simplified method to estimate expected term due to the historical structural changes to its business such that historical exercise data may no longer provide a reasonable basis on which to estimate expected term.

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Lime Energy Co.

Notes to Unaudited Condensed Consolidated Financial Statements

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

Option activity under the Company s stock option plans as of June 30, 2010 and changes during the three months then ended are presented below:

	Shares	**Exercise Price Per Share**		**Weighted Average Exercise Price**
Outstanding at March 31, 2010	2,699,792	$3.30 - $1,363.95	$	8.37
Granted	720,000	$4.50 - $4.50	$	4.50
Exercised				
Forfeited	(23,114)	$3.50 - $787.50	$	63.98
Outstanding at June 30, 2010	3,396,678	$3.30 - $1,363.95	$	7.17
Options exercisable at June 30, 2010	1,991,695	$3.30 - $1,363.95	$	8.78

Option activity under the Company s stock option plans as of June 30, 2010 and changes during the six months then ended are presented below:

	Shares	**Exercise Price Per Share**		**Weighted Average Exercise Price**
Outstanding at December 31, 2009	2,441,344	$3.29 - $1,363.95	$	9.66
Granted	1,021,638	$4.42 - $4.96	$	4.48
Exercised	(15,061)	$3.29 - $3.30	$	3.30
Forfeited	(51,243)	$3.50 - $945.00	$	73.10
Outstanding at June 30, 2010	3,396,678	$3.30 - $1,363.95	$	7.17
Options exercisable at June 30, 2010	1,991,695	$3.30 - $1,363.95	$	8.78

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Notes to Unaudited Condensed Consolidated Financial Statements

The following table summarizes information about stock options outstanding at June 30, 2010:

	Options Outstanding				Options Exercisable		
Exercise Price	**Number Outstanding at June 30, 2010**	**Weighted Average Remaining Contractual Life**		**Weighted Average Exercise Price**	**Number Exercisable at June 30, 2010**		**Weighted Average Exercise Price**
$3.30 - $4.00	626,856	7.2 years	$	3.48	363,999	$	3.45
$4.01 - $6.00	1,078,639	9.7 years	$	4.50	67,861	$	4.73
$6.01 - $8.00	1,305,194	6.3 years	$	7.07	1,291,527	$	7.06
$8.01 - $10.00	19,569	7.7 years	$	9.15	17,836	$	9.20
$10.01 - $20.00	353,561	7.3 years	$	11.15	237,613	$	11.15
$20.01 - $1,363.95	12,859	1.5 years	$	310.13	12,859	$	310.13
$3.30 - $1,363.95	3,396,678	7.6 years	$	7.17	1,991,695	$	8.78

The aggregate intrinsic value of the outstanding options (the difference between the closing stock price on the last trading day of the second quarter of 2010 of $3.43 per share and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on June 30, 2010 was approximately $22,000. The aggregate intrinsic value of exercisable options as of June 30, 2010 was approximately $22,000. These amounts will change based on changes in the fair market value of the Company s common stock.

As of June 30, 2010, there was approximately $774,000 of total unrecognized compensation cost related to stock options which is expected to be recognized over a weighted-average period of 1.0 year and unrecognized cost of $280,000 related to restricted stock which will be recognized over a weighted-average period of 10 months. In addition, there was approximately $1.4 million of unrecognized expense related to the Cliff Options which may be recognized over the next 4.5 years.

Note 3 Acquisition of Advanced Biotherapy, Inc.

On March 3, 2009, the Company exchanged 2,252,341 shares of its common stock for 1,060,421,884 shares of Advanced Biotherapy, Inc. (ADVB) held by certain stockholders of ADVB (the Sellers) representing approximately 90.8% of ADVB s issued and outstanding shares pursuant to a Stock Purchase Agreement dated November 18, 2008. The Company then completed a short-form merger in which it merged ADVB with and into a newly formed merger subsidiary, with the merger subsidiary continuing as the surviving entity. Upon the closing of the merger the Company obtained access to ADVB s assets, including approximately $7.4 million of cash and a revolving credit note issued by the Company that had an outstanding balance of $42,000 and accrued interest payable of $28,000. Upon the closing of the transaction the Company has cancelled the revolving credit note and discontinued the operations of ADVB.

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Notes to Unaudited Condensed Consolidated Financial Statements

ADVB had no revenue generating operations and did not have employees capable of developing a product that would be considered a business. Therefore the Company did not consider ADVB a business as defined by Regulation S-X, Rule 11-01(d) or by generally accepted accounting principles. Consequently, the merger was not accounted for as a business combination under the guidance of ASC 805, Business Combinations. The substance of the ADVB acquisition includes two distinct events. First, as a result of the transaction, the Company has settled the amounts due to ADVB under its revolving credit note (see Note 7). In addition, the Company received approximately $7.4 million of cash in exchange for the shares of common stock it issued in connection with the ADVB acquisition. As a result of the merger, the Company eliminated any debt due to ADVB, recorded the assets acquired (consisting primarily of cash and cash equivalents) at fair value and credited equity for the value of its common shares issued in connection with the ADVB acquisition.

Note 4 Discontinued Operations

On August 10, 2009, the Company sold its Energy Technology business. During the quarter ended June 30, 2009, in anticipation of the sale of the Energy Technology business, the Company reduced the carrying value of the related assets to their expected fair value, incurring an impairment loss of $503,000. The Company has reported the operating results of this business for the three-month and six-month periods ended June 30, 2009 as discontinued operations in the accompanying financial statements.

Note 5 Recent Accounting Pronouncements

In June 2009, the FASB issued Accounting Standards Codification (ASC) 810, Amendment to FASB Interpretation No. 46(R) to revise the approach to determine when a variable interest entity (VIE) should be consolidated. The new consolidation model for VIEs considers whether the Company has the power to direct the activities that most significantly impact the VIE s economic performance and shares in the significant risks and rewards of the entity. The guidance on VIE s requires companies to continually reassess VIEs to determine if consolidation is appropriate and provide additional disclosures. The guidance is effective for the Company s 2010 fiscal year. The adoption of this statement did not have a material impact on the Company s consolidated results of operations and financial condition.

ASC 605-25 In October 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2009-13 for updated revenue recognition guidance under the provisions of ASC 605-25, Multiple-Element Arrangements . The previous guidance has been retained for criteria to determine when delivered items in a multiple-deliverable arrangements should be considered separate units of accounting, however the updated guidance removes the previous separation criterion that objective and reliable evidence of fair value of any undelivered items must exist for the delivered items to be considered a separate unit or separate units of accounting. This guidance is effective for fiscal years beginning on or after June 15, 2010. The Company does not expect that the adoption of this guidance will have a material effect on the Company s consolidated results of operations, financial position or cash flows.

ASC 820 In January 2010, the FASB issued ASU No. 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures About Fair Value Measurements. This guidance amends Subtopic 820-10 to require new disclosures and clarify existing disclosures. This guidance

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Lime Energy Co.

Notes to Unaudited Condensed Consolidated Financial Statements

requires new disclosures of amounts and reasons for significant transfers between Level 1 and Level 2 fair value measurements. Additionally, in the reconciliation for fair value measurements using significant unobservable inputs (Level 3), separate presentation of information about purchases, sales, issuances and settlements is required. The guidance clarifies that fair value measurement disclosures for each class of assets and liabilities may constitute a subset of assets and liabilities within a line item on a reporting entity s balance sheet. The guidance also clarifies disclosure requirements about inputs and valuation techniques for both recurring and nonrecurring fair value measurements (Level 2 or Level 3). The ASU also amends guidance on employers disclosures about postretirement benefit plan assets under ASC 715 to require that disclosures be provided by classes of assets instead of by major categories of assets. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the roll forward of activity for Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, including interim periods within those fiscal years. The Company does not expect that the adoption of this guidance will have a material effect on the Company s consolidated results of operations, financial position or cash flows.

Note 6 Net Loss Per Share

The Company computes loss per share under Statement of Financial Accounting Standards (SFAS) No. 128 Earnings Per Share, which requires presentation of two amounts: basic and diluted loss per common share. Basic loss per common share is computed by dividing loss available to common stockholders by the number of weighted average common shares outstanding, and includes all common stock issued. Diluted earnings would include all common stock equivalents. The Company has not included the outstanding options, warrants or shares issuable upon conversion of the convertible debt as common stock equivalents in the computation of diluted loss per share for the three and six months ended June 30, 2010 and 2009 because the effect would be antidilutive.

The following table sets forth the weighted average shares issuable upon exercise of outstanding options and warrants and conversion of convertible debt that are not included in the basic and diluted loss per share available to common stockholders because to do so would be antidilutive:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2010	**2009**	**2010**	**2009**
Weighted average shares issuable upon exercise of outstanding options	3,283,482	2,595,618	2,998,217	2,522,399
Weighted average shares issuable upon exercise of outstanding warrants	797,571	773,442	802,605	741,302
Weighted average shares issuable upon conversion of convertible debt		714,286		714,286
Total	4,081,053	4,083,346	3,800,822	3,977,987

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Lime Energy Co.

Notes to Unaudited Condensed Consolidated Financial Statements

Note 7 Revolving Line of Credit

On March 12, 2008, the Company entered into a revolving line of credit note with Advanced Biotherapy, Inc. (ADVB) and Richard Kiphart, the Company s Chairman and largest individual investor. On November 14, 2008, Mr. Kiphart agreed to convert his note into shares of the Company s Series A-1 preferred stock. On November 18, 2008, the Company entered an agreement to acquire 90.8% of the shares of ADVB and it completed a short-form merger on March 3, 2009, whereby it merged ADVB with a newly created acquisition subsidiary. Following the merger it canceled the outstanding balance of $42,000 and accrued interest of $28,000 on the ADVB line of credit.

Note 8 Subordinated Convertible Term Notes

During the second quarter of 2007, eight investors, including Richard Kiphart, the Company s Chairman and largest individual stockholder (collectively the Investors), and the Company entered into a loan agreement under which the Investors lent the Company $5 million in the form of subordinated convertible term notes (the Term Notes). Before the conversion discussed below, the Term Notes were to mature on May 31, 2010, and accrued interest at the rate of 10% per year. Interest was payable quarterly, 50% in cash and 50% in shares of the Company s common stock valued at the market price of the Company s common stock on the interest due date.

As part of the transaction, the Company issued the Investors four-year warrants to purchase 206,044 shares of its common stock at $7.28 per share. These warrants were valued at $1,137,000 utilizing a modified Black-Scholes option pricing model utilizing the following assumptions: risk free rate of 4.846%; expected volatility of 93.3%; expected dividend of $0; and expected life of four years.

In recording the transaction, the Company allocated the value of the proceeds to the Term Notes and warrants based on their relative fair values. In doing so, it determined that the Term Notes contained a beneficial conversion feature since the fair market value of the common stock issuable upon conversion of the Term Notes (determined on the Term Note issuance date) exceeded the value allocated to the Term Notes of $3,863,000. The Term Notes were convertible into 714,286 shares of common stock, which at the market price of $8.02 per share on date of issuance of the Term Notes was worth $5,730,000. The difference between the market value of the shares issuable upon conversion and the value allocated to the Term Notes of $1,867,000 was considered to be the value of the beneficial conversion feature.

The value of the beneficial conversion feature and the value of the warrants were recorded as a discount to the Term Notes which was then amortized over the term of the Term Notes using the effective interest method. Amortization of the discount of $249,000 and $495,000 was included in interest expense during the three-month and six-month periods ended June 30, 2009.

In addition, the Company incurred costs of $9,000 relative to the Term Note offering. These costs were capitalized and were also being amortized over the term of the Term Notes using the effective interest method. Amortization of the deferred issuance costs of $1,000 was included in interest expense during the three-month and six-month periods ended June 30, 2009.

Lime Energy Co.

Notes to Unaudited Condensed Consolidated Financial Statements

On August 10, 2009, the Company and Mr. Kiphart agreed to convert his Term Notes, totaling $3.1 million, into 484,375 shares of the Company s common stock at the prior day s closing market price of $6.40 per share. Also on August 10, 2009, the holders of the remaining Term Notes all elected to convert their notes into common stock upon the closing of the then pending underwritten public offering at the lower of the offering price less the underwriters discount and the stated conversion price of the notes of $7.00 per share. The public follow-on offering closed on September 25, 2009, at which time the $1.9 million in Term Notes were converted into 367,504 shares of common stock.

Note 9 The November 2008 PIPE Transaction

On November 13, 2008, the Company entered into Subscription Agreements with 15 investors to sell 1,787,893 units, each comprised of one share of the Company s common stock and a warrant to purchase an additional quarter share of common stock (the Units). The sale price was $3.51 per Unit, which was equal to 75% of the volume-weighted average price of the Company s stock for the ten days prior to closing. The warrants allow holders to purchase a share of common stock for $4.10 per share, which was the closing price of the Company s common stock on the day prior to the closing, and the warrants are exercisable any time after May 13, 2009 and before November 13, 2011. The total gross proceeds raised in the offering were $6,275,500.

The private offering closed in two tranches: tranche A, which was comprised of unaffiliated investors; and tranche B which was comprised of affiliated investors, primarily executive officers and directors of the Company. The Company raised $3,000,500 in tranche A, which closed on November 13, 2008 and $3,275,000 in tranche B, which closed on January 30, 2009. The issuance of the Units sold in tranche B required approval by holders of a majority of the Company s outstanding voting stock pursuant to the NASDAQ Marketplace Rules. The Company received the written consent in lieu of a meeting of stockholders from the holders of shares representing 58.7% of the total outstanding shares of its common stock on November 13, 2008, which was sufficient under the Delaware General Corporation Law, the Company s By-Laws and the NASDAQ Marketplace Rules to approve the transaction.

Securities and Exchange Commission rules require that any corporate actions requiring the stockholder approval that are approved pursuant to a written consent in lieu of a meeting be communicated to all stockholders via an Information Statement and that the corporate action so approved cannot take place until at least 20 days following the mailing or giving of the Information Statement to stockholders. The Company mailed an Information Statement to all of its stockholders on December 31, 2008 informing them of the November 13, 2008 written consent in lieu of a meeting.

Note 10 Preferred Stock

On November 14, 2008, Richard Kiphart agreed to convert his $14.5 million revolving line of credit note and $207,104 of accrued interest into 358,710 shares of Series A-1 preferred stock. Each outstanding share of preferred stock was entitled to cumulative quarterly dividends at a rate of (i) 15% per annum of its stated value (which was $41.00) on or prior to March 31, 2009 (9% in cash and 6% in additional shares of preferred stock); and (ii) 17% per annum of its stated value, at any time on or after April 1, 2009 (9% in cash and 8% in additional shares of preferred stock). The preferred stock was convertible at the

Lime Energy Co.

Notes to Unaudited Condensed Consolidated Financial Statements

holder s election any time after December 31, 2009 into shares of the Company s common stock at the rate of 10 shares of common stock for each share of preferred stock.

On August 10, 2009, to facilitate the anticipated public offering of its common stock, the Company and Mr. Kiphart converted his Series A-1 preferred stock into 3,777,705 shares of the Company s common stock. Following this conversion there were no shares of Series A-1 Preferred Stock outstanding.

Note 11 Business Segment Information

The Company is made up of 17 separate companies, but with the sale of the Energy Technology business in August 2009, all of the remaining businesses operate in the same business segment, the Energy Efficiency Services segment.

Note 12 Other Equity Issuances

(a) During the first quarter of 2010, holders of options to purchase 15,061 shares of the Company s common stock exercised their options on a cashless basis, exchanging 9,626 shares they were entitled to purchase pursuant to the options to satisfy the exercise price, receiving 5,435 shares in exchange.

(b) During the first quarter of 2010 the Company issued 81,494 shares of restricted stock to its executive officers. These shares vest ratably on December 31, 2010, 2011 and 2012 if the executive is still employed by the Company on the vesting date.

(c) During the first six months of 2010, the Company issued 70 shares of its common stock to employees under its Employee Recognition Program.

(d) During June 2010, following stockholder approval of the 2010 Non-Employee Directors Stock Plan, the Company granted 18,359 shares of its common stock to five of its outside directors that participate on various Board committees. These shares vest 50% on grant and 50% on the first anniversary of grant if the director is still serving on the Company s board of directors on the vesting date.

(e) During June 2010, the Company received $72,039 and in exchange issued 24,420 shares of its common stock to employees who participated in its Employee Stock Purchase Plan.

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ITEM 2. **MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

You should read the following discussion regarding the Company along with our financial statements and related notes included in this quarterly report. This quarterly report, including the following discussion, contains forward-looking statements that are subject to risks, uncertainties and assumptions. Our actual results, performance and achievements in 2010 and beyond may differ materially from those expressed in, or implied by, these forward-looking statements. See Cautionary Note Regarding Forward-Looking Statements.

Overview

We are a leading provider of energy efficiency solutions. Our services include integrated energy engineering, consulting and implementation of solutions which enable our customers to reduce their facilities energy consumption, lower their operating and maintenance costs and reduce their carbon footprint. We focus on solutions which include lighting, mechanical and electrical upgrade services, water conservation, weatherization and renewable project development and implementation. We provide these solutions across a wide range of facilities including high-rise office buildings, manufacturing plants, retail sites, mixed use complexes and large government sites. We operate in three specific markets: the commercial and industrial (C&I) market, the utility market and the public sector market. In the C&I market we sell directly to commercial and industrial clients. In the utility market we provide program implementation services for utility demand side management programs. In the public sector market we work with energy service companies (ESCOs) and act as a prime contractor to the federal government for select contract opportunities that align with our implementation capabilities.

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

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

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

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We serve a wide range of commercial, industrial, utility and public sector clients. Our commercial and industrial clients include many Fortune 500 companies for which we provide our energy efficiency solutions directly. We also work for a number of utilities for which we manage energy efficiency portfolio projects. In late 2009 we won our first contract to provide utility program management services for National Grid. Under this contract we provide program marketing, project development and engineering, material procurement, database administration and turnkey project implementation services in an exclusive territory in western New York for its small business customers with demand of 100kw or less. Since winning this first contract we have begun working under similar contracts with two other utilities in three other territories in the Northeast. Our public sector clients include federal, state and local government agencies and educational institutions, which we serve through our relationships with ESCOs and directly. ESCOs are awarded project contracts with the public sector, and we provide energy efficiency expertise to develop and implement tailored solutions under these contracts. In addition, during the third quarter of 2009 we became one of three companies qualified to bid directly under the US Army Corp. of Engineers Facility Repair and Renewal (FRR) program. As a result, we are now able to work directly on federal government projects under the FRR program.

In August 2009 we sold the assets of our Maximum Performance Group, Inc. subsidiary, which made up our Energy Technology business segment in order to focus on our core Energy Efficiency Services business. The Energy Technology segment, which represented approximately 4% of our 2008 revenue, offered a patented line of heating, ventilation and air conditioning and lighting controllers under the eMAC and uMAC brand names.

Results of Operations

Revenue

We generate the majority of our revenue from the sale of our services and products that we purchase and resell to our clients. The substantial majority of our revenue is derived from fixed-price contracts, although we occasionally bill on a time-and-materials basis. Under fixed-price contracts, we bill our clients for each project once the project is completed or throughout the project as specified in the contract. Under time-and-materials arrangements, we bill our clients on an hourly basis with material costs and other reimbursable expenses passed through and recognized as revenue. Our projects take a couple days to a year or more to complete with projects in our commercial and industrial markets typically taking less time to complete than the larger projects in our public sector markets. We recognize the revenue on smaller, shorter term projects on a completed contract basis and on larger, longer projects we utilize the percentage of completion method for revenue recognition. All of our revenue is earned in the United States.

Gross Profit

Gross profit equals our revenue less costs of sales. The cost of sales for our business consists primarily of materials, our internal labor, including engineering, and the cost of subcontracted labor.

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Gross profit is a key metric that we use to examine our performance. Gross profit depends in large part on the volume and mix of products and services that we sell during any given period.

Selling, General and Administrative Expenses

Selling, general and administrative expenses (SG&A) include the following components:

- direct labor and commission costs related to our employee sales force;
- costs of our non-production management, supervisory and staff salaries and employee benefits, including the costs of share-based compensation;
- costs related to insurance, travel and entertainment, office supplies and utilities;
- costs related to marketing and advertising our products;
- legal and accounting expenses; and
- costs related to administrative functions that serve to support our existing businesses, as well as to provide the infrastructure for future growth.

Amortization of Intangibles

When we acquire companies we allocate the purchase price to tangible assets (such as property, equipment, accounts receivable, etc.), identifiable intangible assets (such as contract backlogs, customer lists, technology, trade name, etc.), with the balance recorded as goodwill. We amortize the value of certain intangible assets over their estimated useful lives as a non-cash expense.

Other Expense

Other expense consists of interest expense, net of interest earned on our investments. Interest expense represents the interest costs and fees associated with the mortgage on our headquarters and various vehicle loans, and for periods prior to 2010, our subordinated convertible term notes (including amortization of the related debt discount and issuance costs), notes payable and our lines of credit. Interest income includes earnings on our invested cash balances and amortization of the discount on our long term receivables.

Dividend Expense

Dividend expense includes dividends accrued on our Series A-1 preferred stock. All of the Series A-1 preferred stock was converted to common stock on August 10, 2009.

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Three months Ended June 30, 2010 Compared to Three months Ended June 30, 2009

Consolidated Results

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Change $	Change %
Revenue	$ 17,508	$ 15,795	$ 1,713	10.8%
Cost of sales	13,319	12,953	366	2.8%
Gross profit	4,189	2,842	1,347	47.4%
Selling, general and administrative	6,094	5,549	545	9.8%
Amortization of intangibles	163	313	(150)	-47.9%
Operating Loss	(2,068)	(3,020)	952	-31.5%
Other income (expense)	40	(397)	437	-110.1%
Loss from continuing operations	(2,028)	(3,417)	1,389	-40.6%
Loss from discontinued operations		(637)	637	-100.0%
Net loss	$ (2,028)	$ (4,054)	$ 2,026	-50.0%
Preferred stock dividends		(646)	646	-100.0%
Net loss available to common stockholders	$ (2,028)	$ (4,700)	$ 2,672	-56.9%

The following table presents the percentage of certain items to revenue:

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009
Revenue	100.0%	100.0%
Cost of sales	76.1%	82.0%
Gross profit	23.9%	18.0%
Selling, general and administrative	34.8%	35.1%
Amortization of intangibles	0.9%	2.0%
Operating Loss	-11.8%	-19.1%
Other income (expense)	0.2%	-2.5%
Loss from continuing operations	-11.6%	-21.6%
Loss from discontinued operations	0.0%	-4.0%
Net loss	-11.6%	-25.7%
Preferred stock dividends	0.0%	-4.1%
Net loss available to common stockholders	-11.6%	-29.8%

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Revenue. Our consolidated revenue for the three-month period ended June 30, 2010 increased $1.7 million or 10.8%, to $17.5 million from $15.8 million for the same period during 2009. Contributing to this increase was $4.5 million in revenue from our new utility program management initiative and $1.2 million earned under our FRR contract. Both of these businesses are new initiatives we began in late 2009 and both started generating meaningful revenue earlier this year. Revenue in our C&I markets declined approximately $400 thousand, while revenue from our public sector markets declined approximately $3.6 million. We believe that the decline in revenue from our public sector markets was primarily the result of uncertainty regarding financing sources for public sector clients. We believe these issues have begun to be resolved and should not have as much impact on revenue in future periods.

We expect conditions in our C&I and public sector markets to improve during the balance of the year, resulting in higher sales from these markets for the balance of 2010. We also expect continued growth from our utility program management and direct government initiatives, neither of which contributed materially to 2009 revenue. The combination of these factors is expected to result in higher revenue during the third and fourth quarters of 2010 when compared to both the first half of 2010 and the third and fourth quarters of 2009.

Gross Profit. Our gross profit for the second quarter of 2010 was $4.2 million, a $1.4 million or 47.4% increase when compared to the $2.8 million in gross profit earned during the second quarter of 2009. Our gross profit increased as a result of the increase in our revenue in combination with a higher gross margin earned on sales. Our gross margin for the second quarter of 2010 was 23.9%, compared to 18.0% for the same period during 2009. Contributing to the increase in our gross margin was the revenue earned from our new utility program management division, as well as a mix of work in our C&I market that included a large amount of higher margin engineering work. These C&I engineering projects were completed in advance of separately awarded implementation work which generally carries lower gross margins on higher revenue. This implementation work is expected to be completed during the third and fourth quarters of this year, which will contribute to reduce consolidated gross margins in these future periods. In addition, as our direct government work under the FRR contract continues to grow it will also contribute to reduce our consolidated gross margin as its gross margins are generally lower than those of our other businesses (but with lower associated SG&A expense).

Selling, General and Administrative Expense. Our selling, general and administrative expense increased $545 thousand or 9.8%, to $6.1 million during the second quarter of 2010 from $5.5 million during the second quarter of 2009. Our SG&A as a percentage of revenue declined from 35.1% for the second quarter of 2009 to 34.8% for the second quarter of 2010. SG&A expense associated with our two new business initiatives were responsible for almost all of the increase in our SG&A expense during the second quarter of 2010. These new initiatives will contribute to an increase in our SG&A expense in future periods, but we expect the rate at which our total SG&A expense will grow will be lower than that of our consolidated revenue, resulting in lower SG&A expense as a percentage of revenue.

Amortization of Intangibles. Amortization expense declined $150 thousand to $163 thousand for the second quarter of 2010 compared to $313 thousand for the second quarter of 2009. Our amortization expense has declined as intangible assets associated with acquisitions we have made over the past three years have become fully amortized. Absent any new acquisitions, none of which are currently planned, amortization expense is expected to be $147 thousand during and $117 during for the third quarter and fourth quarters of 2010, respectively.

Other Non-Operating (Expense) Income. Other expense declined $437 thousand to income of $40 thousand for the second quarter of 2010 compared to expense of $397 thousand for the second quarter of

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2009. Interest expense was $8 thousand for the three-month period ended June 30, 2010, a decrease of $419 thousand when compared to $427 thousand for the same period during 2009. The components of interest expense for the three-month periods ended June 30, 2010 and 2009 are as follows:

Three months ended June 30,	**2010**	**2009**
Note payable	$	$ 26
Mortgage	5	4
Subordinated convertible notes		125
Other	3	22
Total contractual interest	$ 8	$ 177
Amortization of deferred issuance costs and debt discount		250
Total interest expense	$ 8	$ 427

Our contractual interest declined $169 thousand to $8 thousand for the three-month period ended June 30, 2010 from $177 thousand for the same period during 2009. The decline was the result of the repayment of our notes payable and conversion of our subordinated notes during late 2009. Our total interest expense declined an additional $250 thousand as a result of the elimination of the amortization expense associated with the subordinated notes.

Interest income increased $18 thousand to $48 thousand during the second quarter of 2010, from $30 thousand during the second quarter of 2009. Approximately $40 thousand of the interest income recognized during the second quarter of 2010 was amortization of the discount on our long-term receivables, compared to $21 thousand recognized during second quarter of 2009.

Discontinued Operations. During the three-month period ended June 30, 2009 we reported a $637 thousand loss from discontinued operations related to our former Energy Technology business. We sold this business in August 2009, therefore there was no loss from discontinued operations during the 2010 period.

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Six months Ended June 30, 2010 Compared to Six months Ended June 30, 2009

Consolidated Results

	Six Months Ended June 30, 2010	2009	Change $	%
Revenue	$ 29,321	$ 29,520	$ (199)	-0.7%
Cost of sales	23,273	23,873	(600)	-2.5%
Gross profit	6,048	5,647	401	7.1%
Selling, general and administrative	12,527	10,782	1,745	16.2%
Amortization of intangibles	325	658	(333)	-50.6%
Operating Loss	(6,804)	(5,793)	(1,011)	17.5%
Other income (expense)	80	(840)	920	-109.5%
Loss from continuing operations	(6,724)	(6,633)	(91)	1.4%
Loss from discontinued operations		(1,029)	1,029	-100.0%
Net loss	$ (6,724)	$ (7,662)	$ 938	-12.2%
Preferred stock dividends		(1,202)	1,202	-100.0%
Net loss available to common stockholders	$ (6,724)	$ (8,864)	$ 2,140	-24.1%

The following table presents the percentage of certain items to revenue:

	Six Months Ended June 30, 2010	2009
Revenue	100.0%	100.0%
Cost of sales	79.4%	80.9%
Gross profit	20.6%	19.1%
Selling, general and administrative	42.7%	36.5%
Amortization of intangibles	1.1%	2.2%
Operating Loss	-23.2%	-19.6%
Other income (expense)	0.3%	-2.8%
Loss from continuing operations	-22.9%	-22.5%
Loss from discontinued operations	0.0%	-3.5%
Net loss	-22.9%	-26.0%
Preferred stock dividends	0.0%	-4.1%
Net loss available to common stockholders	-22.9%	-30.0%

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Revenue. Our revenue for the six months ended June 30, 2010 was $29.3 million, representing a 0.7%, or $199 thousand decline when compared to the $29.5 million earned during the six months ended June 30, 2009. Revenue from sales to our C&I markets declined approximately $1.5 million when compared to the year earlier period, while revenue from our public sector markets was approximately $6.4 million lower. These revenue declines were largely offset by approximately $6.2 million earned from our utility program management division and $1.5 million earned under the FRR contract. Neither the utility program management division nor the FRR contract generated any revenue during the first six months of 2009. C&I revenue for the first half of 2009 benefited from several projects that carried over from a very strong fourth quarter of 2008, whereas weaker revenue during the fourth quarter of 2009 resulted in fewer projects that carried over into the first half of 2010, contributing to the decline in revenue when compared to the same period during 2009. The decline in revenue in our public sector market during the first half of 2010 was primarily caused by uncertainty regarding financing sources for our public sector clients. We believe that these issues have begun to be resolved and should not have as much impact on revenue in future periods.

Gross Profit. Our gross profit for the six-month period ended June 30, 2010 was $6.0 million, a $401 thousand, or 7.1%, increase over the $5.6 million earned during the same period in 2009. The increase in our gross profit was the result of higher gross margins earned on slightly lower revenue during the first six months of 2010. Our gross profit margin was 20.6% for the six-month period ended June 30, 2010, compared to 19.1% for the six months ended June 30, 2009. Contributing to the increase in the gross margin was a mix of business that included a larger portion of engineering services in our C&I market and contributions from our new utility program management division which did not generate any revenue during the first half of 2009. We expect our gross margins for the balance of the year to be lower than the gross margin earned during the second quarter of 2010 as the mix of our business changes such that our lower margin public sector and direct government businesses are expected to represent a larger portion of our total revenue and our higher margin C&I and utility program management businesses are expected to represent a smaller portion.

Selling, General and Administrative Expense. Our selling, general and administrative expense for the six-month period increased $1.7 million or 16.2%, to $12.5 million when compared to $10.8 million for the same period during 2009. The majority of this increase was related to our new utility program management and direct government divisions, both of which we initiated during the second half of 2009.

Amortization of Intangibles. Amortization expense declined $333 thousand to $325 thousand during the first half of 2010 from $658 thousand during the first half of 2009. Amortization expense has declined as intangible assets associated with acquisitions we made over the past three years have become fully amortized.

Other Non-Operating (Expense) Income. Other expense declined $920 thousand to income of $80 thousand during the six-month period ended June 30, 2010 when compared to $840 thousand of expense for the year earlier period. Interest expense was $18 thousand for the first half of 2010 compared to $903 thousand for the first half of 2009. The components of interest expense for the six-month periods ended June 30, 2010 and 2009 are as follows:

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Six months ended June 30,		**2010**		**2009**
Lines of credit	$		$	53
Note payable				53
Mortgage		10		8
Subordinated convertible notes				248
Other		8		46
Total contractual interest	$	18	$	408
Amortization of deferred issuance costs and debt discount				495
Total interest expense	$	18	$	903

Total contractual interest (the interest on outstanding loan balances) decreased $390,000 to $18,000 during the first six months of 2010 from $408,000 during the first six months of 2009. The reduction in contractual interest was the result of the repayment of our line of credit and notes payable and the conversion of our subordinated notes to common stock during the second half of 2009. Amortization expense of the deferred issuance costs and debt discount was eliminated with the conversion of the subordinated notes resulting in a further reduction of our total interest expense by $495,000 when compared to the year earlier period.

Interest income increased $35 thousand to $98 thousand during the first six months of 2010, from $63 thousand during the first six months of 2009. Approximately $81 thousand of the 2010 interest income was amortization of the discount on our long-term receivables, compared to $43 thousand during 2009.

Discontinued Operations. During the first six months of 2009 we reported a $1.0 million loss from discontinued operations related to our former Energy Technology business. We sold this business in August 2009, therefore there was no loss from discontinued operations during the 2010 period.

Liquidity and Capital Resources

As of June 30, 2010, we had cash and cash equivalents (including restricted cash) of $19.4 million, compared to $23.4 million on December 31, 2009. Our debt obligations as of June 30, 2010 consisted of a mortgage of $400 thousand on our facility in Elk Grove Village Illinois and various vehicle loans totaling $190 thousand.

Our principal cash requirements are for operating expenses, the funding of inventory and accounts receivable, and capital expenditures. We have financed our operations since inception primarily through the sale of equity, as well as through various forms of secured debt.

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

Six months ended June 30,		2010		2009
Net cash used in operating activities	$	(3,594)	$	(6,090)
Net cash used in investing activities		(3,531)		(805)
Net cash (used in) provided by financing activities		(69)		7,834
Net (Decrease) Increase in Cash and Cash Equivalents	$	(7,194)	$	939
Cash and Cash Equivalents, at beginning of period		22,870		3,734
Cash and Cash Equivalents, at end of period	$	15,676	$	4,673

Six months Ended June 30, 2010 Compared to Six months Ended June 30, 2009

Net unrestricted cash decreased $7.2 million during the first six months of 2010 as compared to increasing $939 thousand during the same period in 2009.

Operating Activities

Operating activities consumed cash of $3.6 million during the six-month period ended June 30, 2010 as compared to consuming cash of $6.1 during the same period of 2009.

Whether cash is used or generated by operating activities is a function of the profitability of our operations and changes in working capital. To get a better understanding of cash sources and uses, our management separates the cash used or provided by operating activities into two categories: the cash consumed (or generated) by operating activities before changes in working capital; and the cash consumed (or generated) from changes in working capital.

The cash consumed by operating activities before changes in working capital increased $100 thousand to $5.4 million during the first six months of 2010 as compared to consuming $5.3 million during the first six months of 2009. The increase in the cash consumed by operating activities before changes in working capital was the result of the higher cash operating loss (excluding depreciation, amortization and share based compensation) largely due to higher SG&A expense, offset by the elimination of the loss from discontinued operations. We believe that we will see improvements in the cash consumed by operating activities before changes in working capital if our revenue and profitability improve as we believe they will, such that we believe our operations will generate cash before changes in working capital during the second half of the year.

Changes in working capital generated cash of $1.8 million during the first half of 2010, compared to consuming $793 thousand during the first half of 2009. We expect our working capital requirements to increase in future periods with increases in our sales, though we believe that our new business initiatives

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will have lower working capital requirements than our existing businesses, which will help to will keep the growth in working capital to a rate that is lower than the growth of our future sales.

Investing Activities

We used $3.5 million in investing activities during the six-month period ended June 30, 2010, compared to using $805 thousand during the six-month period ended June 30, 2009. During the 2010 period we pledged $3.3 million as collateral to support certain letters of credit which are used to obtain surety bonds, which are often required for our government contracts. These letters of credit are expected to decline to approximately $1 million by the end of 2010 and should be terminated completely during 2011. As the letters of credit are reduced or terminated our collateral will be released. We also made a net investment in property and equipment of $230 thousand during the first half of 2010, compared to $191 thousand during the same period of 2009. Most of the 2010 purchases were related to the opening of a new office to support our utility program management initiative, for enhancements to our accounting system and for new construction equipment. During the first half of 2009 we paid $614 thousand for the AEM earn-out and costs associated with the acquisition of AEM.

Financing Activities

Financing activities consumed cash of $69 thousand during the six-month period ended June 30, 2010 as compared to generating $7.8 million during the same period in 2009. During the first half of 2010 we made principal payments of $141 thousand on our debt. This was partially offset by $72 thousand received from the sale of shares of our common stock to our employees through our Employee Stock Purchase Plan. In March 2009 we closed on the acquisition of Advanced Biotherapy, Inc. (ADVB) and gained access to its cash balances of $7.4 million. We treated this acquisition as an offering because we acquired ADVB for its cash, and we discontinued all its operations upon the closing of the acquisition. In January 2009 we closed on tranche B of the November 2008 PIPE, generating cash proceeds of $3,275,000. The proceeds from these two transactions were partially offset by a $1,850,000 net pay down on our line of credit; $796 thousand in transaction costs related primarily to the acquisition of ADVB; and $223 thousand in scheduled principal payments on our debt.

SOURCES OF LIQUIDITY

Our primary sources of liquidity are our available cash.

Our ability to continue to expand our sales 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, timing and profitability of future revenues, working capital requirements and the level and amount of our sales and marketing efforts, among other things.

We have raised a significant amount of capital since our formation through the issuance of shares of our common and preferred stock and notes, which has allowed us to acquire companies and to continue to execute our business plan. Most of these funds have been consumed by operating activities, either to fund our losses or for working capital requirements. 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 strategies for cash flow improvement during the second half of 2010 and beyond:

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- Focus on increasing the sales and profitability of our products and services while controlling the growth in our SG&A expense. We believe that to a great degree our ability to generate positive cash flow is dependent on our ability to increase sales while limiting the growth of our SG&A expense and controlling changes in our gross margins. We believe that we have built a corporate infrastructure over the past three years that is capable of supporting a large, diversified national company. We believe that this infrastructure can support significantly higher revenue without a proportional increase in our SG&A expense. We are focused on continually reducing our SG&A expense as a percentage of revenue with a target of reducing it to 14% or less within the next few years. We believe this is a sustainable SG&A expense ratio for the business over the longer term and reflects our expectations with respect to our ability to achieve additional operating leverage. To achieve this target SG&A expense ratio we will need to significantly increase our revenue. If we are able to begin to achieve this goal, while holding or improving our gross margins, we believe we will begin to generate positive cash flow and earnings within the next 12 to 24 months.

- Aggressively manage our costs in order to conserve cash. The prudent use of the capital resources available to us remains one of our top priorities. We are constantly reviewing our operations looking for more efficient ways to achieve our objectives.

We believe that if we are successful in increasing our revenue while controlling the growth in our operating expenses we should have sufficient liquidity to allow us to operate until our operations turn cash flow positive.

Cautionary Note Regarding Forward-Looking Statements

Our disclosure and analysis in this report, including Management s Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking information within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, adopted pursuant to the Private Securities Litigation Reform Act of 1995. Statements that are not purely historical may be forward-looking. You can identify these forward-looking statements by the use of words such as anticipate, believe, estimate, expect, hope, intend, may, project, plan, goal, target, should, and similar expressions, including when used in the n

Forward-looking statements are subject to various risks and uncertainties. Accordingly, there are or will be important factors that could cause actual results to differ materially from those indicated in these statements, including but not limited to those described in our Annual Report on Form 10-K filed with the Securities and Exchange Commission under Part II, Item 1A Risk Factors and the following:

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

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- we may be unable to obtain sufficient bonding capacity to support certain service offerings.

All forward-looking statements in this report should be considered in the context of the risk and other factors described above and as detailed from time to time in the Company s Securities and Exchange Commission filings. Any forward-looking statements speak only as of the date the statement is made and we undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. It is not possible to identify all of the risks, uncertainties and other factors that may affect future results. In light of these risks and uncertainties, the forward-looking events and circumstances discussed in this report may not occur and actual results could differ materially from those anticipated or implied in the forward-looking statements. Accordingly, users of this report are cautioned not to place undue reliance on the forward-looking statements.

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

ITEM 3. **Quantitative and Qualitative Disclosures About Market Risk**

Not applicable.

ITEM 4. **Controls and Procedures**

Disclosure Controls and Procedures.

Our management, including our chief executive officer and our chief financial officer, maintains our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) and has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on such evaluation, our chief executive officer and chief financial officer have concluded that, as of June 30, 2010, such disclosure controls and procedures are effective for the purpose of ensuring that material information required to be in the reports that we submit, file, furnish or otherwise provide to the Securities and Exchange Commission is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Controls.

There have not been any changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the quarter ended June 30, 2010 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

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Limitations of the Effectiveness of Internal Control

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the internal control system are met. Because of the inherent limitations of any internal control system, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected.

PART II. OTHER INFORMATION

ITEM 2. **Unregistered Sales of Equity Securities and Use of Proceeds**

On June 3, 2010, we issued 18,359 shares of our common stock to five of our outside directors who participate on various Board committees. These shares vest 50% on grant and 50% on the first anniversary of grant if the director is still serving on the Company s board of directors on the vesting date. Such shares were issued in consideration of the recipients service on the Board committees on which they serve and were issued in transaction exempt from registration pursuant to section 4(2) of the Securities Act of 1933

ITEM 6. **Exhibits**

31.1	Certificate of Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certificate of Chief Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of the Chief Executive Officer of the Corporation Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of the Chief Financial Officer of the Corporation Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURES

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

LIME ENERGY CO.:

Dated: August 10, 2010	By:	/s/ David Asplund David Asplund *Chief Executive Officer (principal executive officer)*
Dated: August 10, 2010	By:	/s/ Jeffrey Mistarz Jeffrey Mistarz *Chief Financial Officer (principal financial and accounting officer)*