LIME ENERGY CO.
Form 10-Q
November 12, 2015
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2015

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.)

3 Convery Blvd., Suite 600, Woodbridge, New Jersey 07095

(Address of principal executive offices, including zip code)

(732) 791-5380

(Registrant s telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions 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

9,564,148 shares of the registrant s common stock, $.0001 par value per share, were outstanding as of November 12, 2015.

Table of Contents

TABLE OF CONTENTS

Table of Contents

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 statements within the meaning of the safe harbor provisions of the U.S. 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 expressio in the negative.

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 (the SEC) under Part I, Item 1A Risk Factors. The following are some of the factors that could affect our financial performance or could cause actual results to differ materially from estimates contained in or underlying the forward-looking statements:

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

- we have incurred significant operating losses since our inception and may not achieve or sustain profitability in the future;

- we may not be able to raise additional capital to fund future operating losses;

- the SEC is investigating us and the results of that investigation could have a material adverse effect on our business, results of operations and financial condition;

- our customers and investors may lose confidence in us because of our restatement;

- 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;

- we recently acquired EnerPath International Holding Company, and we may not realize the expected benefits of the acquisition should we encounter integration difficulties or other challenges;

- we depend upon a limited number of utility contracts to generate substantially all of our revenues; and

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

All forward-looking statements in this report should be considered in the context of the risks and other factors described above and as detailed from time to time in the Company s SEC filings. Any forward-looking statements speak only as of the date the statement is made and, 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. 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.

Table of Contents

PART I - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS (UNAUDITED)

Lime Energy Co.

Condensed Consolidated Balance Sheets

(in thousands)

	September 30, 2015 (unaudited)	December 31, 2014
Assets		
Current Assets		
Cash and cash equivalents	$ 6,756	$ 5,473
Restricted cash	1,300	500
Accounts receivable, less allowance for doubtful accounts of $1,516 and $1,794, respectively	22,010	11,820
Inventories	2,242	176
Costs and estimated earnings in excess of billings on uncompleted contracts	9,053	7,407
Prepaid expenses and other	1,581	619
Current assets of discontinued operations	301	613
Total Current Assets	43,243	26,608
Net Property and Equipment	1,856	1,470
Long-Term Receivables	1,273	710
Intangible Assets, net	5,154	
Deferred Financing Costs, net	156	22
Goodwill	8,173	6,009
Total Assets	$ 59,855	$ 34,819

Table of Contents

Lime Energy Co.

Condensed Consolidated Balance Sheets

(in thousands, except share data)

	September 30, 2015 (unaudited)	December 31, 2014
Liabilities and Stockholders Equity		
Current Liabilities		
Accounts payable	$ 22,588	$ 13,341
Accrued expenses	3,846	1,245
Billings in excess of costs and estimated earnings on uncompleted contracts	1,402	705
Customer deposits	642	512
Other current liabilities	11	11
Current portion of long-term liabilities	16	
Current liabilities of discontinued operations	135	806
Total Current Liabilities	28,640	16,620
Long-Term Debt - Related Party	7,380	
Derivative Liability - Related Party	6,489	
Total Liabilities	42,509	16,620
Commitments and Contingencies		
Contingently redeemable Series C Preferred stock, $0.01 par value: 10,000 shares authorized, issued and outstanding (includes accrued dividends)	10,367	9,633
Stockholders Equity		
Common stock, $.0001 par value; 50,000,000 shares authorized 9,564,148 and 9,460,090 issued and outstanding as of September 30, 2015 and December 31, 2014, respectively	1	1
Additional paid-in capital	209,558	208,916
Accumulated deficit	(202,580)	(200,351)
Total Stockholders Equity	6,979	8,566
Total Liabilities and Stockholders Equity	**$** 59,855	**$** 34,819

See accompanying notes to condensed consolidated financial statements

Table of Contents

Lime Energy Co.

Condensed Consolidated Statements of Operations

(in thousands, except per share data, unaudited)

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Revenue	$ 32,160	$ 15,585	$ 82,409	$ 41,456
Cost of sales	21,125	10,735	55,003	28,462
Gross Profit	11,035	4,850	27,406	12,994
Selling, general and administrative	9,352	4,887	24,571	14,463
Acquisition costs	529		1,467	
Amortization of intangibles	285		594	
Operating income (loss)	869	(37)	774	(1,469)
Other Income (Expense)				
Interest income	43	27	114	66
Interest expense - Related Party $301 and $784 thousand for the three and nine months ended September 30, 2015, respectively.	(322)	(35)	(825)	(35)
Extinguishment of debt - Related Party			(1,420)	
Gain (loss) from change in derivative liability - Related Party	1,272		(814)	
Total other income (expense)	993	(8)	(2,945)	31
Income (Loss) from continuing operations before income taxes	1,862	(45)	(2,171)	(1,438)
Income tax (expense) benefit	(3)		1,165	
Income (Loss) from continuing operations	1,859	(45)	(1,006)	(1,438)
Discontinued Operations:				
(Loss) Income from operation of discontinued business	(46)	136	(267)	187
Net Income (loss)	1,813	91	(1,273)	(1,251)
Preferred stock dividends	(336)	(521)	(956)	(2,474)
Net income (loss) available to common stockholders	$ 1,477	$ (430)	$ (2,229)	$ (3,725)
Basic earnings (loss) per common share from				
Continuing operations	$ 0.15	$ (0.15)	$ (0.20)	$ (1.05)
Discontinued operations	(0.00)	0.04	(0.03)	0.05
Basic earnings (loss) per common share	$ 0.15	$ (0.11)	$ (0.23)	$ (1.00)

Weighted-average common shares outstanding - Basic	9,564	3,760	9,539	3,738
Diluted earnings (loss) per common share from				
Continuing operations	$ 0.05	$ (0.15)	$ (0.20)	$ (1.05)
Discontinued operations	0.00	0.04	(0.03)	0.05
Diluted earnings (loss) per common share	$ 0.05	$ (0.11)	$ (0.23)	$ (1.00)
Weighted-average common shares outstanding - Diluted	17,697	3,760	9,539	3,738

See accompanying notes to condensed consolidated financial statements

Table of Contents

Lime Energy Co.

Condensed Consolidated Statement of Stockholders Equity

(in thousands, unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders Equity
Balance, December 31, 2014	**9,460**	**$ 1**	**$ 208,916**	**$ (200,351)**	**$ 8,566**
Dividends on Series C Preferred Stock				(956)	(956)
Shares issued for benefit plans	12				
Share based compensation	92		642		642
Net loss				(1,273)	(1,273)
Balance, September 30, 2015	**9,564**	**$ 1**	**$ 209,558**	**$ (202,580)**	**$ 6,979**

See accompanying notes to condensed consolidated financial statements.

Table of Contents

Lime Energy Co.

Condensed Consolidated Statements of Cash Flows

(in thousands, unaudited)

Nine Months Ended September 30,	**2015**	**2014**
Cash Flows From Operating Activities		
Net Loss	$ (1,273)	$ (1,251)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Provision for bad debt	426	688
Share-based compensation	642	237
Depreciation and amortization	1,230	546
Amortization of deferred financing costs	39	
Change in derivative liability - Related Party	814	
Loss on extinguishment of debt - Related Party	1,420	
Deferred income tax benefit	(1,246)	
Interest on Sub Notes added to principal - Related Party	28	
Amortization of original issue discount - Related Party	98	
Establishment of restricted funds to release Letter of Credit	(1,300)	
Release of restricted funds	500	
Changes in assets and liabilities:		
Accounts receivable	(4,706)	(2,021)
Inventories	239	
Costs and estimated earnings in excess of billings on uncompleted contracts	(1,646)	(2,080)
Prepaid expenses and other	(767)	(265)
Assets of discontinued operations	312	1,710
Accounts payable	5,266	1,826
Accrued expenses	1,843	(1,648)
Billings in excess of costs and estimated earnings on uncompleted contracts	639	(1,306)
Customer deposits and other current liabilities	64	(2,518)
Liabilities of discontinued operations	(671)	(2,111)
Net cash provided by (used in) operating activities	1,951	(8,193)
Cash Flows From Investing Activities		
Acquistion of EnerPath	(11,000)	
Purchases of property and equipment	(777)	(443)
Capitalization of Product Software	(153)	
Net cash used in investing activities	(11,930)	(443)
Cash Flows From Financing Activities		
Proceeds from issuance of convertible notes - Related Party	11,750	1,000
Proceeds from the issuance of preferred stock		2,000
Costs related to preferred stock issuances		(11)
Payments on vehicle financing	(8)	
Deferred financing costs	(480)	
Net cash provided by financing activities	11,262	2,989

Net Increase (Decrease) in Cash and Cash Equivalents		1,283		(5,647)
Cash and Cash Equivalents, at beginning of period		5,473		6,940
Cash and Cash Equivalents, at end of period	**$**	6,756	**$**	1,293

	Nine Months Ended September 30, 2015		2014	
Supplemental Disclosure of Cash Flow Information:				
Preferred dividends satisfied through issuance of preferred stock:	$		$	943
Cash paid during the period for interest: Continuing operations	$	651	$	3
Warrants issued for deferred financing fees:	$	31	$	

See accompanying notes to condensed consolidated financial statements

Table of Contents

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- and nine-month periods ended September 30, 2015 and 2014 are not necessarily indicative of the results to be expected for the full year.

As more fully described in Note 6 Subordinated Convertible Term Notes below, on March 24, 2015 (the Note Issuance Date), the Company issued to Bison Capital Partners IV, L.P. (Bison) a subordinated convertible note due March 24, 2020 in the principal amount of approximately $11.7 million (the Note). As set forth in the Note, beginning with the quarter ending March 31, 2016, the Company must meet certain rolling twelve-month Adjusted EBITDA targets, as defined in the Note, or otherwise be in breach of its covenants under the Note. Any breach of covenant would create an event of default, which could cause acceleration of the Note s maturity. The Adjusted EBITDA target for the twelve months ending March 31, 2016 is $6.3 million. Achievement of this target will depend on many factors including the amount, timing, and profitability of future revenues and the integration efforts related to the recent acquisition of EnerPath International Holding Company (EnerPath), among other things. In the event the Company does not meet the covenant and the Note holders accelerate payment of the Note and interest, the Company will likely be required to refinance the Note with other debt or equity or sell assets. There can be no assurance that the Company will be able to do so on favorable terms or at all.

The December 31, 2014 balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. For further information, refer to the audited financial statements and the related footnotes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2014.

Starting on March 24, 2015, the date of the acquisition of EnerPath, the results of EnerPath s operations have been consolidated with our results. For a more complete discussion of the EnerPath acquisition, refer to Note 5 Acquisition of EnerPath below.

Note 2 - Share-Based Compensation

The Compensation Committee of the Board of Directors of the Company (the Board) grants stock options and restricted stock under the Company s 2008 Long Term Incentive Plan (as amended, the 2008 Plan). Prior to an amendment to the 2008 Plan that became effective on October 15, 2015, the 2008 Plan provided that up to 407,143 shares of our common stock could be delivered under the plan to certain of our employees, consultants, and non-employee directors. As amended, the 2008 Plan provides for the issuance of up to 1,585,718 shares of our common stock. In addition, the 2008 Plan provides for an automatic annual

Table of Contents

increase in the number of shares of our common stock reserved under the plan in an amount equal to 35,715 shares.

As of September 30, 2015, there were 1,366,029 shares of our common stock reserved for issuance under the 2008 Plan. During the first nine months of 2015, we granted options to purchase 1,217,680 shares under the 2008 Plan, and options to purchase 1,250,920 shares were outstanding under the 2008 Plan as of September 30, 2015.

All options granted under the 2008 Plan were granted at a price equal to or greater than the market price of the Company s stock on the date of grant. Substantially all outstanding stock options under the 2008 Plan vest ratably over three years and expire 10 years from the date of grant. In addition to grants made under the 2008 Plan, the Company gave employees the right to purchase shares at a discount to the market price under the Company s employee stock purchase plans. Our employee stock purchase plans allow employees of the Company to purchase the Company s common stock at a discount using payroll deductions and entitles employees in the United States to receive favorable tax treatment provided by the Internal Revenue Code of 1986, as amended.

During the first quarter of 2015, our Board adopted, and subsequently our shareholders approved, the Lime Energy Co. 2014 Employee Stock Purchase Plan (the 2014 ESPP). The 2014 ESPP provided for successive two six-month offering periods commencing on July 1, 2014 and January 1, 2015, respectively. During the second quarter of 2015, our Board adopted, and subsequently our shareholders approved, the Lime Energy Co. 2015 Employee Stock Purchase Plan (the 2015 ESPP), which became effective on June 18, 2015. The 2015 ESPP provides for the issuance of up to 100,000 shares of common stock in successive two six-month offering periods commencing on July 1, 2015 and January 1, 2016, respectively. As of September 30, 2015, approximately 267 persons were eligible to participate in the 2015 ESPP.

In addition to the 2008 Plan, the 2014 ESPP, and the 2015 ESPP, the Board grants restricted stock to non-employee directors under the Company s 2010 Non-Employee Directors Stock Plan (the Directors Plan). Restricted stock granted to date under the Directors Plan for Board service vest 50% upon grant and 50% on the first to occur of the first anniversary of the grant date, if the director is then still serving on the Board, or the director s death, disability, or retirement. Restricted stock granted under the Directors Plan for committee service vest 50% upon grant and 50% on the first to occur of the first anniversary of the grant date, if the director is then still serving on the committee, or the director s death, disability, or retirement. During the first nine months of 2015, we granted 92,413 shares of restricted stock under the Directors Plan. As of September 30, 2015, there were 284,364 shares of our common stock available for issuance under the Directors Plan.

The Company accounts for employee share-based awards in accordance with Accounting Standards Codification (ASC) 718, which 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 (generally equal to the vesting period of the grant).

Table of Contents

The following table summarizes the Company s total share-based compensation expense (in thousands):

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Stock options	$ 118	$ (20)	$ 280	$ (7)
Restricted stock	61	66	313	232
Employee Stock Purchase Plan	18		49	12
	$ 197	$ 46	$ 642	$ 237

The compensation expense to be recognized in future periods with respect to the Company s employee options and restricted stock is as follows (in thousands):

As of September 30, 2015	Unrecognized Compensation Expense	Weighted Average Remaining Life (in Months)
Stock options	$ 1,167	11.6
Restricted stock	$ 85	4.6

Note 3 Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue From Contracts With Customers. ASU 2014-09 supersedes nearly all existing revenue recognition under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration the Company expects to be entitled to for those goods or services using a defined five-step process. More judgment and estimates may be required to achieve this principle than under existing U.S. GAAP. ASU 2014-09 is effective for annual periods beginning after December 15, 2017, including interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients or (ii) a retrospective approach with the cumulative effect upon initial adoption recognized at the date of adoption which includes additional footnote disclosures. The Company is currently evaluating the impact of the adoption of ASU 2014-09 on the Company s consolidated financial statements and has not yet determined the method of adoption.

In August 2014, the FASB amended the FASB ASC and amended Subtopic 205-40, *Presentation of Financial Statements Going Concern.* This amendment prescribes that an entity s management should evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity s ability to continue as a going concern within one year after the date that the financial statements are issued. The amendments will become effective for the Company s annual and interim reporting periods beginning January 1, 2017. The Company is evaluating the impact of this amendment on

Table of Contents

its consolidated financial statements; however, the Company does not expect that the adoption of this standard will have a material impact on the Company s consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs. ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The FASB issued the ASU to simplify the presentation of debt issuance costs, and to align with other existing FASB guidance. ASU 2015-03 is effective for annual periods beginning after December 15, 2015, and interim periods within those annual periods. The adoption of this standard is not expected to have a significant impact on the Company s consolidated financial statements.

Note 4 Earnings Per Share

The Company computes income or loss per share under ASC 260 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 income or loss available to common stockholders by the number of weighted average common shares outstanding, and includes all common stock issued. Diluted earnings include all common stock equivalents. The Company has included outstanding options or warrants, convertible preferred shares, and convertible debt as common stock equivalents in the computation of diluted earnings per share for the three months ended September 30, 2015. The Company has not included these items for the other periods presented as the effect would be anti-dilutive.

The following table sets forth the basic and diluted earnings (loss) per common share:

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Earnings (Loss) Per Share - Basic				
Income (loss) from continuing operations	$ 1,859	$ (45)	$ (1,006)	$ (1,438)
Less: Preferred stock dividends	(336)	(521)	(956)	(2,474)
Income available to common stockholders	1,523	(566)	(1,962)	(3,912)
(Loss) Income from operation of discontinued operations	(46)	136	(267)	187
Net income (loss) available to common stockholders	$ 1,477	$ (430)	$ (2,229)	$ (3,725)
Weighted average common shares outstanding - Basic	9,564	3,760	9,539	3,738
Basic earnings (loss) per common share	$ 0.15	$ (0.11)	$ (0.23)	$ (1.00)
Earnings (Loss) Per Share - Diluted				
Net income (loss) available to common stockholders	$ 1,477	$ (430)	$ (2,229)	$ (3,725)
Less: Gain from change in derivative liability	(1,272)			
Add: Preferred stock dividends	336			
Add: Interest on convertible term notes	322			
	$ 863			

Net income (loss) applicable to dilutive common stock