LIME ENERGY CO.
Form 10-K
March 31, 2008

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**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

# Form 10-K

þ **ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended: December 31, 2007**

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

**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, IL** | **60007-2410** |
| (Address of principal executive offices) | (Zip Code) |

**Issuer s telephone number (847) 437-1666**
**Securities registered under Section 12(b) of the Exchange Act:**

| **Title of each class** | **Name of each exchange on which registered** |
|---|---|
| Common Stock $0.0001 par value | The NASDAQ Stock Market LLC |

**Securities registered under Section 12(g) of the Exchange Act:**
None

**(Title of class)**

Indicate by checkmark if the registrant is a well-know seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by checkmark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

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 þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. 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 þ

(Do not check if a smaller reporting company)

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

The aggregate market value of the registrant s common stock held by non-affiliates was $59,794,414 based on the reported last sale price of common stock on June 30, 2007, which was the last business day of the registrant s most recently completed second fiscal quarter. For purposes of this computation, all executive officers, directors and 10% stockholders were deemed affiliates. Such a determination should not be construed as an admission that such executive officers, directors or 10% stockholders are affiliates.

As of March 26, 2008, there were 7,738,074 shares of common stock, $0.0001 par value, of the Company issued and outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

| **DOCUMENT DESCRIPTION** | **10-K PART** |
|---|---|
| Portions of the Registrant s notice of annual meeting of shareowners and proxy statement to be filed pursuant to Regulation 14A within 120 days after Registrant s fiscal year end of December 31, 2007 are incorporated by reference into Part II, Item 5 and Part III of this Report. | II, ITEM 5<br>III |

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## PART I

### Item 1. Business.

Included in this report, exhibits and associated documents are forward-looking statements 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, as well as historical information. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurances that such expectations reflected in such forward-looking statements will prove to be correct. Our actual results could differ materially from those anticipated in forward-looking statements as a result of certain factors, including matters described in the section titled Management s Discussion and Analysis of Financial Condition and Results of Operations. Forward-looking statements include those that use forward-looking terminology, such as the words anticipate, believe, estimate, expect, hope, intend, may, project, plan, should, and similar expressions, including when used in the negative. Although we be that the expectations reflected in these forward-looking statements are reasonable and achievable, such statements involve risks and uncertainties and no assurance can be given that the actual results will be consistent with these forward-looking statements.

Unless the context otherwise requires, Lime Energy, the Company, we, our, us and similar expressions ref Lime Energy Co. and its subsidiaries.

### Overview

We are a provider of energy services and technologies that improve the energy efficiency of our clients facilities and reduce their ongoing maintenance costs. Services we offer include the design, engineering and installation of energy efficient lighting systems and energy engineering consulting. We also market a proprietary line of controllers that provide intelligent control and continuous monitoring of HVAC and lighting equipment via wireless communication technology to reduce energy usage and improve system reliability.

### History

Our business has evolved substantially over time. In December 2006, we discontinued the marketing of what had been our original core product and, through an acquisition, launched our Energy Services business in June 2006. Through both organic growth and additional acquisitions in 2006 and 2007, our Energy Services business grew to the point that it represented approximately 81% of 2007 revenue. The balance of our consolidated 2007 revenue was derived from our Energy Technology business. The details of our history follow.

On December 5, 1997, we were formed as Electric City LLC, a Delaware limited liability company, for the purpose of marketing a line of lighting controllers (which we marketed under the EnergySaver name) the core technology of which was developed in Italy. On June 5, 1998, we changed from a limited liability company into a corporation by merging Electric City LLC into Electric City Corp., a Delaware corporation.

On June 10, 1998, we issued shares of our common stock representing approximately six (6%) percent of our then issued and outstanding common stock, to the shareholders of Pice Products Corporation, an inactive, unaffiliated company with minimal assets, pursuant to a merger agreement. The purpose of the merger was to substantially increase the number of our shareholders to facilitate the establishment of a public trading market for our common stock. Trading in our common stock commenced on August 14, 1998 on the OTC Bulletin Board.

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On May 3, 2005, we acquired Maximum Performance Group, Inc. ( MPG ), a technology-based provider of energy and asset management products and services. MPG manufactures and markets its eMAC line of controllers for HVAC and lighting applications.

In June 2006 we established our Energy Services business through the acquisition of Parke P.A.N.D.A. Corporation ( Parke ). Parke is an energy services provider specializing in the design, engineering and installation of energy efficient lighting upgrades for commercial and industrial users. We expanded this business through the acquisition of Kapadia Consulting, Inc. in September 2006. Kapadia is an engineering firm that specializes in energy management consulting and energy efficient lighting upgrades for commercial and industrial users. During 2007 we added to this segment through two small acquisitions and the opening of additional offices.

In December 2006 we discontinued the active marketing of the EnergySaver due to changes in lighting technology, which in our view limited the future market for the product.

On September 13, 2006 we changed our name to Lime Energy Co. to reflect our new focus. On September 22, 2006 our stock began trading on the OTC Bulletin Board under the trading symbol LMEC.

On February 25, 2008, our stock began trading on the NASDAQ Capital Market under the trading symbol LIME.

**Products and Services**

***Energy Services***

Through our wholly-owned subsidiaries we market, design, engineer and install energy efficient lighting upgrades for commercial and industrial users. As part of our services, we seek to determine the best lighting solutions for our customer, taking into consideration factors such as lighting requirements, building environmental conditions, hours of operation, energy costs, available utility and/or tax incentives, and installation, operating and maintenance costs of various lighting alternatives. We then remove the existing lighting system and replace it with a new lighting system manufactured by third party manufacturers. Our customer typically realize paybacks of 12 to 24 months on their lighting system upgrade as the result of lower energy consumption, reduced maintenance costs, utility rebates and tax incentives. A lighting upgrade will also very often improve the overall quality of lighting in a customer s facility.

We also provide energy engineering services to assist customers in improving the energy efficiency of their facilities and to better manage their energy costs. Some of the energy engineering services we offer include:

- building energy audits;
- energy management planning;
- engineering design review with a view to optimizing energy efficiency and energy rebates;
- project management of energy related construction or upgrade projects;
- HVAC and boiler system optimization; and
- incentive and rebate application processing and procurement.

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***eMAC & uMAC***

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

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

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

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

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

**Marketing, Sales and Distribution**

The majority of our sales are derived through the efforts of our internal sales force. We currently have 33 employees whose primary responsibility is sales and marketing working out of ten sales offices, some of which are home offices. Our sales people have been trained to sell all of our products and services, regardless of the subsidiary that employs them or the office that they work out of. Our sales leads are developed from a combination of cold calls, referrals, trade shows and repeat customers.

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**Customers**

During 2007, one customer, Washington Mutual, Inc. accounted for approximately 10% of our consolidated billings. During 2006, three customers, Kohl s Department Stores, Modell s Sporting Goods and Automated Building Controls accounted for 14%, 13% and 13% of our consolidated billings, respectively. During 2005, two customers, Kohl s Department Stores and Duane Read Inc., accounted for approximately 37% and 11% of our consolidated billings, respectively.

**Competition**

There are many competitors in the energy services business, including small regional lighting retrofit companies, electrical contractors and large national energy service companies. The large national energy service companies tend to market to large national companies and compete for large energy retrofit projects in which lighting is one piece of the total project. We focus on providing lighting retrofit services to small to mid-sized commercial and industrial users (which we believe are under-served) and to niche markets, where installations are more difficult. In these markets we market our services based on the financial return to our customers and we differentiate ourselves through our thorough upfront analysis of the application, our experience, our reputation for quality work, our superior service, our ability to provide complete energy engineering services through our engineering group and our ability to provide extended payment terms.

Energy engineering services such as those provided by our engineering group are also generally widely available. The certifications held by our engineers include: Professional Engineer ( PE ); Certified Energy Engineer ( CEM ); and Certified Lighting Efficiency Professional ( CLEP ). To obtain these certifications an individual must have a high level of experience and demonstrated knowledge of engineering and energy engineering concepts. Kapadia, our energy engineering company, differentiates itself from its competitors through its reputation for quality work and its 27 years of experience as an energy engineering firm. A significant amount of energy engineering business comes from repeat customers or referrals.

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

**Manufacturing**

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

Most components of the eMAC are sourced from multiple suppliers, though some components are proprietary to a single manufacturer. We periodically engage in discussions with additional parts suppliers, seeking to ensure lowest cost pricing and reliability of supply.

Our lighting products are purchased from third party suppliers and manufacturers. These products are generally widely available and are selected based on a combination of price, performance, features and availability.

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During 2007, approximately 27% of our consolidated materials and subcontracted labor came from two suppliers. During 2006 approximately 12% of our consolidated purchases were made from one supplier. During 2005, approximately 20% of our consolidated material purchases were made from four suppliers. Purchases from any one supplier will vary year-to-year depending on sales and inventory levels. None of our largest suppliers sell the Company proprietary products that we could not purchase from other vendors.

**Compliance With Environmental Laws**

Neither the production, nor the sale of our products in any material way generates activities or materials that require compliance with federal, state or local environmental laws. Our Energy Services businesses use licensed disposal firms to dispose of old lamps, lighting ballasts or other products that may contain heavy metals or other potential environmental hazards.

**Research and Development**

Our engineering staff, in conjunction with outside engineering consultants, based on the day-to-day use of the eMAC and its components and various testing sites around the country, develops modifications and improvements to the product line. Total research and development costs charged to operations were approximately $700,000, $535,000 and $395,000 for the years ended December 31, 2007, 2006 and 2005, respectively.

**Intellectual Property**

As of December 31, 2007, we had nine issued patents and two patents pending before the U.S. Patent and Trademark Office, as well as foreign patent offices on various aspects of the eMAC and EnergySaver technologies. In addition we have registered four trademarks and have two additional trademark registrations pending.

**Employees**

As of March 15, 2008, we had 110 full time employees and six part time employees, of which 18 were management and corporate staff, 11 were engineers, 33 were engaged in sales and marketing and 48 were engaged in project management, product installation, customer support and field service.

**Item 1A. Risk Factors.**

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

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***Risks Related to Our Business***

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

We have experienced operating losses and negative cash flow from operations since our inception in December 1997 and we currently have an accumulated deficit. Our ability to continue as a going concern is ultimately dependent on our ability to increase sales to a level that will allow us to operate profitably and sustain positive operating cash flows. Although we are continuing our efforts to improve profitability through expansion of our business in both current and new markets, we must overcome marketing hurdles, including gaining market acceptance, in order to sell large quantities of our products and services. In addition, we may be required to reduce the prices of our products in order to increase sales. If we reduce prices, we may not be able to reduce costs sufficiently to achieve acceptable profit margins. As we strive to grow our business, we have spent and expect to continue to spend significant funds (1) for general corporate purposes, including working capital, marketing, recruiting and hiring additional personnel; and (2) for research and development. To the extent that our revenues do not increase as quickly as these costs and expenditures, our results of operations and liquidity will be materially adversely affected. If we experience slower than anticipated revenue growth or if our operating expenses exceed our expectations, we may not achieve profitability. Even if we achieve profitability in the future, we may not be able to sustain it.

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

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

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

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

***The failure to effectively maintain and upgrade our proprietary products could adversely affect our business.***

A recent effort to upgrade the eMAC technology has taken significantly longer and cost more than initially anticipated. This delay has adversely affected eMAC sales, resulting in significant losses at MPG which contributed to the impairment of its goodwill. The situation has also diverted a significant amount of management s attention from the operation of our other businesses. While we have taken steps to address the situation, if they prove ineffective we may continue to experience losses and a drain on our management and cash resources. Maintenance of proprietary technology will be an ongoing issue that we must effectively handle without impacting sales and profitability.

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

We have historically derived a significant portion of our annual revenue from a limited number of customers. Seldom has any one customer represented 10% or more of our revenues for more than one year in a row. This requires that we continually replace major customers, whose needs we have satisfied, with one or more new customers. The failure to replace a major customer could have a significant negative effect on our results of operations and financial condition. We believe that as a result of recent acquisitions we will experience an increased diversification of our customer base, reducing the amount of our revenue associated with several large customers, but this remains to be seen.

***We expect our quarterly revenue and operating results to fluctuate. If we fail to meet the expectations of market analysts or investors, the market price of our common stock could decline substantially, and we could become subject to securities litigation.***

Our business is seasonal and can be affected by cyclical factors outside of our control. Our quarterly revenue and operating results have fluctuated in the past and will likely vary from quarter to quarter in the future. You should not rely upon the results of one quarter as an indication of our future performance. Our revenue and operating results may fall below the expectations of market analysts or investors in some future quarter or quarters. Our failure to meet these expectations could cause the market price of our common stock to decline substantially. If the price of our common stock falls significantly we may be the target of securities litigation. If we become involved in this type of litigation, regardless of the outcome, we could incur substantial legal costs, management s attention could be diverted from the operation of our business, and our reputation could be damaged, which could adversely affect our business, results of operations and/or financial condition.

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

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

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

We regard our intellectual property rights, such as patents, licenses of patents, trademarks, copyrights and trade secrets, as somewhat important to our success. Although we have entered into confidentiality and rights to inventions agreements with our employees and consultants, the steps we have taken to protect our intellectual property rights may not be adequate. Third parties may infringe or misappropriate our intellectual property rights or we may not be able to detect unauthorized use and take appropriate steps to enforce our rights. Failure to take appropriate protective steps could materially adversely affect any competitive advantage we may have in the energy management market. In addition, patents held by third parties may limit our ability to manufacture, sell or otherwise commercialize products and could result in the assertion of claims of patent infringement against us. If that were to happen, we could try to modify our products to be non-infringing, but we might not be successful or such modifications might not avoid infringing on the intellectual property rights of third parties.

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

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

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

- further develop and improve our operating, information, accounting, financial and other internal systems and controls on a timely basis;
- improve our business development, marketing and sales capabilities; and
- expand, train, motivate and manage our employee base.

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

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

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

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

- our inability to interest such companies in a proposed transaction;
- our inability to agree on the terms of an acquisition;
- incompatibility between our management and management of a target company; and
- our inability to obtain the approval of the holders of our common stock, if required.

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

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

Since January 1, 2000, we have acquired seven companies, two of which we subsequently sold at a loss and one of which performed below expectation necessitating a write-off of the associated goodwill. Our future growth may depend, in part, upon our ability to successfully identify, acquire and operate other complementary businesses. We may encounter problems associated with such acquisitions, including the following:

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

- difficulties in meeting operating expectations for acquired businesses;

- diversion of management s attention from other business concerns;

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

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

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

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

Our operations have not generated positive cash flow since the inception of the Company in 1997. We have funded our operations through the issuance of common and preferred stock and secured debt. Our ability to continue to operate until our cash flow turns positive may depend on our ability to continue to raise funds through the issuance of equity or debt. If we are not successful in raising additional funds, we might have to significantly scale back or delay our growth plans, sell or shut down some of our businesses or possibly cease operations altogether. Any reduction or delay in our growth plans could materially adversely affect our ability to compete in the marketplace, take advantage of business opportunities and develop or enhance our products and services. If we should have to cease operations altogether, our stockholders investment is likely to be lost.

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

We may find it necessary to raise capital again some time in the future. If we raise additional funds in the future through the issuance of equity securities or convertible debt securities, our existing stockholders will likely experience dilution of their present equity ownership position and voting rights. Depending on the number of shares issued and the terms and conditions of the issuance, new equity securities could have rights, preferences, or privileges senior to those of our common stock. Depending on the terms, common stock holders may not have approval rights with respect to such issuances.

**Item 1B. Unresolved Staff Comments.**

None.

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## Item 2. Properties.

Our headquarters are located at 1280 Landmeier Road in Elk Grove Village, Illinois. This facility is approximately 13,000 square feet and houses the corporate headquarters and a warehouse. We acquired this facility in August 1998. There is a mortgage on the building that matures in February 2010. Lime Midwest, Inc., which is in the Energy Services segment, also operates out of this building.

Other properties which are used for sales and administration include:

| Location: | Business Segment | Square Feet | Lease Expiration |
|---|---|---|---|
| Austin, TX | Energy Services | 2,000 | June 2008 |
| Dallas, TX | Energy Services | 2,900 | January 2009 |
| Glendora, CA | Energy Services | 9,350 | December 2009 |
| New York, NY | Energy Technology | 2,800 | September 2010 |
| Peekskill, NY | Energy Services | 2,000 | Month-to-month |
| San Diego, CA | Energy Technology | 8,200 | September 2012 |
| Seattle, WA | Energy Services | 1,877 | December 2009 |
| Ventura, CA | Energy Services | 1,776 | November 2010 |

We believe that the space and location of our current facilities in combination with the current and planned outsourcing of our manufacturing will be sufficient to reach a level of sales and production projected for the current year.

## Item 3. Legal Proceedings.

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

## Item 4. Submission of Matters to a Vote of Security Holders.

On November 13, 2007, we received a written consent in lieu of a meeting of Stockholders from the holders of shares representing 67.1% of the total issued and outstanding shares of our common stock authorizing our Board of Directors, in its discretion, to effect a reverse stock split at an exchange ratio ranging from one-for-two to one-for-ten of our issued and outstanding shares of common stock. We sought approval to effect this reverse split for the purpose of qualifying for listing of our common stock on the NASDAQ Capital Market.

On November 29, 2007, we distributed an information statement to all stockholders of record as of November 26, 2007, informing them of this written consent in lieu of a meeting.

On January 16, 2008, our Board of Directors authorized a 1 for 7 reverse split of our stock, effective at the opening of business on January 28, 2008. All share figures in this annual report reflect this reverse stock split.

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**PART II**

**Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

From December 12, 2000 to June 9, 2006, our common stock was listed on the American Stock Exchange under the trading symbol ELC . From June 12, 2006 through September 21, 2006, our common stock traded on the OTC Bulletin Board under the trading symbol ELCY. From September 22, 2006 until January 28, 2008 our stock traded on the OTC Bulletin Board under the symbol LMEC. Following a 1 for 7 reverse split of our stock on January 28, 2008 and until February 25, 2008 our trading symbol was LMEG. On February 25, 2008 our stock began trading on the NASDAQ Capital Market with the trading symbol LIME.

The closing price of our common stock on March 27, 2008 was $10.84. The following table sets forth the quarterly high and low selling prices for our common stock as reported on The American Stock Exchange and OTC Bulletin Board since January 1, 2006, adjusted for the reverse splits.

| | Common Stock | |
|---|---|---|
| | **High** | **Low** |
| **Fiscal Year Ended December 31, 2006:** | | |
| Fiscal Quarter Ended March 31, 2006 | $117.60 | $58.80 |
| Fiscal Quarter Ended June 30, 2006 | $ 71.40 | $ 4.90 |
| Fiscal Quarter Ended September 30, 2006 | $ 9.80 | $ 5.25 |
| Fiscal Quarter Ended December 31, 2006 | $ 9.03 | $ 5.32 |
| | | |
| **Fiscal Year Ended December 31, 2007:** | | |
| Fiscal Quarter Ended March 31, 2007 | $ 7.70 | $ 6.30 |
| Fiscal Quarter Ended June 30, 2007 | $ 15.05 | $ 5.81 |
| Fiscal Quarter Ended September 30, 2007 | $ 14.21 | $ 9.45 |
| Fiscal Quarter Ended December 31, 2007 | $ 15.75 | $ 5.60 |

**Holders**

As of March 26, 2008 we had approximately 5,000 holders of record of our common stock and 7,738,074 shares of common stock outstanding.

**Dividends**

No dividends were declared or paid during the three month period ended December 31, 2007.

We have never declared or paid any cash dividends on our common stock and we do not anticipate paying any cash dividends in the foreseeable future.

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**Securities Authorized for Issuance Under Equity Compensation Plans**

The following information reflects certain information about our equity compensation plans as of December 31, 2007:

| | Equity Compensation Plan Information | | |
|---|---|---|---|
| | (a) | (b) | (c) |
| **Plan Category** | **Number of securities to be issued upon exercise of outstanding options, warrants and rights** | **Weighted-average exercise price of outstanding options, warrants and rights** | **Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))** |
| Equity compensation plans approved by security holders | 90,672 | $ 29.88 | 16,948 |
| Equity compensation plans not approved by security holders *(1)* | 2,079,676 | $ 23.02 | |
| Total | 2,170,348 | $ 23.31 | 16,948 |

(1) We grant stock options to our non-employee directors pursuant to a Directors Stock Option Plan (See Compensation of Directors ), which grants are included in this category.

**Recent Sales of Unregistered Securities**

During the twelve months ended December 31, 2007, we issued the securities listed below:

In January 2007, pursuant to the Directors Stock Option Plan we granted options to certain outside directors with an exercise price of $6.30 per share, which was the market price on the date of issuance. Warrants held by 12 investors, including Messrs. Asplund and Kiphart, contained anti-dilution provisions that automatically adjust the exercise price on the warrants to the issuance price of any security convertible into our common stock if the price of the newly issued security is less than the exercise price on the holder s warrant. Prior to the granting of the directors options in January 2007, the exercise price on these warrants was $7.00 per share. The grant of the director options caused the exercise price on these warrants to automatically be reduced to $6.30 per share.

During January 2007, we issued warrants to consultants with terms of two to three years to purchase 38,571 shares of our common stock at prices of $7.00 to $7.56 per share as partial consideration for services provided to us.

A provision of our June 2006 PIPE transaction required us to file and have declared effective by no later than November 3, 2006, a registration statement registering the shares issued as part of the transaction. To the extent that we failed to have the registration statement declared effective by this date, we were required to pay penalties to the PIPE investors at the rate of 1% per month of the purchase price paid by the investors. Largely as a result of the questions regarding the need to amend our Certificate of Incorporation to effect the 2006 reverse split of our common stock, we were not able to have the registration statement declared effective until February 14,

2007. All of the investors in the PIPE transaction agreed to accept shares of our common stock as payment of this registration penalty. As of December 31, 2006, we had accrued $345,583 in penalties related to our failure to register these shares. These accrued penalties, along with $268,125 of penalties for the period from January 1, 2007 through February 14, 2007, were satisfied through the issuance of 87,673 shares of our common stock in January and February 2007.

On February 23, 2007, we commenced a rights offering to stockholders in which we distributed to each holder of record as of February 23, 2007 (other than the former Series E Preferred stockholders and Daniel Parke, who waived their rights to participate), non-transferable subscription rights to purchase shares of our common stock at $7.00 per share. Stockholders that participated in the rights offering were also able to subscribe for any shares that were not purchased by other stockholders pursuant to their subscription rights. The rights offering closed on March 30, 2007 and raised $2,796,700 (net of issuance costs of $202,932) through the issuance of 428,519 shares of common stock to 260 of our existing stockholders. We received the proceeds from the offering and issued the common stock to the participants during the first week of April 2007.

In connection with the placement of the subordinated convertible term notes during the second quarter of 2007 we issued four-year warrants to eight investors, including Richard Kiphart, our chairman and largest individual stockholder, to purchase 206,043 shares of our common stock at $7.28 per share.

As part of the MPG acquisition, 23,735 shares of common stock were deposited in escrow for the benefit of the selling stockholders of MPG to be released over the two-year period following the April 30, 2005 purchase of MPG if it achieved certain revenue targets during the period. During May 2007 we issued 2,818 shares to the former MPG stockholders which we determined we owed them pursuant to the MPG merger agreement.

Delano Group Securities LLC acted as an advisor on the acquisition of MPG in 2005. Part of Delano s compensation for its services was tied to the purchase price paid for MPG. David Asplund owned and operated Delano prior to joining Lime Energy as our CEO in January 2006. Since the release of the escrow shares was considered a payment of additional consideration to the former stockholders of MPG, we issued Mr. Asplund 141 shares of our common stock in May 2007 in satisfaction of the commission owed Delano.

On June 6, 2007, retroactive to May 31, 2007, we acquired the assets and assumed certain liabilities of George Bradley Boyett dba Texas Energy Products. The purchase consideration consisted of 28,571 shares of our common stock and cash of $312,787.

On August 6, 2007, retroactive to July 31, 2007, we acquired the assets and assumed certain liabilities of Preferred Lighting, Inc. for 15,069 shares of our common stock and cash of $409,953 in cash (including $109,953 paid in 2008 pursuant to an earn-out based on 2007 earnings). We also issued five year warrants to the former owners of Preferred Lighting to purchase 21,429 shares of our common stock at $13.23 per share.

During 2007, we issued 7,088 shares of our common stock to the holders of our subordinated convertible term notes in satisfaction of 50% of the interest owed on the notes.

During 2007 certain employees and a former director exercised options to purchase 33,005 shares of our common stock at prices ranging from $6.30 to $7.14 per share.

During 2007 six investors exercised their warrants to purchase 5,011 shares of our common stock at $6.30 per share. One of these investors elected to exercise its warrant on a cashless basis, surrendering 569 shares it would have otherwise be entitled to receive on exercise to cover the exercise price.

The sales and issuances of common stock, debt instruments and warrants to purchase common stock in private placements listed above were made by us in reliance upon the exemptions from registration provided under Sections 4(2) and 4(6) of the Securities Act of 1933, as amended, and Rule 506 of Regulation D, promulgated by the SEC under federal securities laws and comparable exemptions for sales to accredited investors under state securities laws. The offers and sales were made to accredited investors as defined in Rule 501(a) under the Securities Act and no general solicitation was made by us or any person acting on our behalf; the securities sold were subject to transfer restrictions, and the certificates for those shares contained an appropriate legend stating that they had not been registered under the Securities Act and may not be offered or sold absent registration unless sale is pursuant to an exemption therefrom.

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**Item 6. Selected Financial Data**

The information set forth below is not necessarily indicative of results of future operations, and should be read in conjunction with Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, and the Consolidated Financial Statements and notes thereto included in Item 8, Financial Statements and Supplementary Data, of this Form 10-K, which are incorporated herein by reference, in order to understand further the factors that may affect the comparability of the financial data presented below.

**LIME ENERGY CO. AND SUBSIDIARIES**
**Selected Financial Data**

| | Year ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 *(1)* | 2006 *(1)* | 2005 | 2004 | 2003 |
| **Statement of Operations Data:** | | | | | |
| Revenue | $ 19,481,130 | $ 8,143,624 | $ 3,693,429 | $ 733,630 | $ 2,280,532 |
| Cost of sales | 15,082,400 | 6,931,294 | 3,691,854 | 862,366 | 1,945,554 |
| Gross profit (loss) | 4,398,730 | 1,212,330 | 1,575 | (128,736) | 334,978 |
| Selling, general and administrative | 13,072,381 | 12,165,700 | 5,363,503 | 4,234,240 | 3,921,121 |
| Amortization of intangibles | 2,011,878 | 1,210,006 | 471,765 | | |
| Impairment loss | 4,181,969 | 1,183,525 | 242,830 | | |
| Operating loss | (14,867,498) | (13,346,901) | (6,076,523) | (4,362,976) | (3,586,143) |
| Other income (expense) | (685,230) | (3,079,188) | (544,253) | (626,049) | (354,941) |
| Loss from continuing operations | (15,552,728) | (16,426,089) | (6,620,776) | (4,989,025) | (3,941,084) |
| Loss from discontinued operations | | (21,425) | (251,962) | (170,337) | (1,540,858) |
| Net loss | $ (15,552,728) | $ (16,447,514) | $ (6,872,738) | $ (5,159,362) | $ (5,481,942) |
| Basic and diluted loss per common share from continuing operations *(2)(3)* | $ (2.06) | $ (10.60) | $ (18.59) | $ (25.34) | $ (27.30) |
| Basic and diluted loss per common share *(2)(3)* | $ (2.06) | $ (10.61) | $ (19.14) | $ (25.76) | $ (32.06) |
| Weighted average common shares outstanding *(2)(3)* | 7,541,960 | 3,844,087 | 455,809 | 380,013 | 321,538 |

| | | | | | |
|---|---|---|---|---|---|
| **Balance Sheet Data:** | | | | | |
| Cash and cash equivalents | $ 4,780,701 | $ 4,663,618 | $ 4,229,150 | $ 1,789,808 | $ 2,467,023 |
| Working capital | 5,825,753 | 3,606,419 | 646,483 | 263,304 | 2,050,157 |
| Total assets | 25,943,832 | 25,396,865 | 17,098,974 | 6,479,320 | 7,353,627 |
| Long-term debt, including current portion | 3,269,634 | 567,091 | 4,980,032 | 1,230,353 | 1,348,645 |
| Total stockholders equity | 13,869,832 | 18,184,756 | 4,377,637 | 1,780,271 | 3,040,932 |

(1) Effective January, 1, 2006, we adopted SFAS 123(R) which requires companies to record stock compensation expense for equity-based awards granted, including stock options and restricted stock unit grants, over the service period of the equity-based award based on the fair value of the award at the date of grant. We recognized $3,726,731 and $4,828,955 of stock compensation expense during 2007 and 2006, respectively.

(2) During 2006 we effected a 1 for 15 reverse split of our common stock. The weighted average common shares outstanding and the earnings per share values

have all been adjusted to reflect the reverse split.

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

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**Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.**

The following discussion should be read in conjunction with the consolidated financial statements and related notes which appear elsewhere in this report on Form 10-K. The discussion contains forward-looking statements within the meaning of the Private Securities Litigation Act of 1995. Such statements consist of any statement other than a recitation of historical fact and can be identified by the use of forward-looking terminology such as may, expect, anticipate, estimate or continue or the negative of such terms or other variations of such terms or comparable terminology. You are cautioned that all forward-looking statements are necessarily speculative and there are certain risks and uncertainties that could cause actual events or results to differ materially from those referred to in such forward-looking statements. We do not have a policy of updating or revising forward-looking statements and, therefore, you should not assume that our silence over time means that actual events are bearing out as estimated in such forward-looking statements.

**Overview**

We are a provider of energy services and technologies that improve the energy efficiency of our clients facilities and reduce their ongoing maintenance costs. Services we offer include the design, engineering and installation of energy efficient lighting systems and energy engineering consulting. We also market a proprietary line of controllers that provide intelligent control and continuous monitoring of HVAC and lighting equipment via wireless communication technology to reduce energy usage and improve system reliability.

The Company consists of three reporting segments: Energy Services, Energy Technology and Financial Services.

Our Energy Services segment markets, designs, engineers and installs energy efficient lighting upgrades for commercial and industrial users. As part of our services, we seek to determine the best lighting solutions for our customers, taking into consideration factors such as lighting requirements, building environmental conditions, hours of operation, energy costs, available utility and/or tax incentives, and installation, operating and maintenance costs of various lighting alternatives.

Our Energy Technology segment sells our proprietary line of HVAC controllers to commercial and industrial users under the eMAC brand name. The eMAC, which we added through the acquisition of Maximum Performance Group, Inc. in May 2005, provides remote monitoring and control, and reduces the energy consumed by commercial rooftop HVAC units. Prior to 2007 we also actively marketed the EnergySaver line of lighting controllers to commercial and industrial customers. The EnergySaver reduced the energy consumed by ballasted commercial lighting fixtures. We discontinued the active marketing of the EnergySaver in December 2006 due to changes in lighting technology which we felt would reduce the future market for the product.

Our Financial Services segment was created in 2007 to provide liquidity to our operating subsidiaries by purchasing certain long term receivables from them. The ability to offer extended payment terms to our customers can be an important differentiating factor in certain markets and with certain types of customers. By consolidating all of these long term receivables under Lime Finance, we hope to better manage them and eventually leverage them with debt financing to reduce the cost of capital used to fund them. As of December 31, 2007 we had approximately $400,000 of receivables in this portfolio.

Our Company has evolved considerably since it was formed in 1997 as an energy technology company to manufacture and sell the EnergySaver. The eMAC line of HVAC and lighting controllers has replaced the EnergySaver as our energy technology product, and energy technology is no longer our primary source of revenue. Our Energy Services segment, which was formed in June 2006, has grown rapidly through acquisitions and organic growth, such that it represented 81% of our consolidated revenue in 2007. The growth of this segment is expected to continue to outpace that of our Energy Technology segment such that it will be the primary contributor to our growth in 2008.

**Critical Accounting Policies and Estimates**

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

***Use of Estimates***

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

***Revenue Recognition***

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

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

***Profit Recognition on Long-Term Contracts***

We account for revenue on most of our long-term contracts on the completed contract method, whereby revenue is recognized once the project is substantially complete. However, we account for revenues on some long-term contracts under the percentage of completion method in conjunction with the

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cost-to-cost method of measuring the extent of progress toward completion. Any anticipated losses on contracts are charged to operations as soon as they are determinable.

***Allowance for Doubtful Accounts***

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. The allowance is largely based upon specific knowledge of customers from whom collection is determined to be doubtful and our historical collection experience with such customers. If the financial condition of our customers or the economic environment in which they operate were to deteriorate, resulting in an inability to make payments, or if our estimates of certain customers ability to pay are incorrect, additional allowances may be required. During 2007, we increased our allowance by $126,000 and wrote off receivables of $341,000. As of December 31, 2007 our allowance for doubtful accounts was approximately $151,000, or 2.4% of our outstanding accounts receivable.

***Impairment of Long-Lived Assets.***

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

During 2006, we determined that our EnergySaver based VNPP ( Virtual Negawatt Power Plan ) Asset was completely impaired and recorded an impairment charge of $1,183,525 to reduce the carrying value of the asset to zero.

***Goodwill***

We have made acquisitions in the past that included a significant amount of goodwill and other intangible assets. Goodwill is subject to an annual (or under certain circumstances more frequent) impairment test based on its estimated fair value. Estimated fair value is less than value based on undiscounted operating earnings because fair value estimates include a discount factor in valuing future cash flows. There are many assumptions and estimates underlying the determination of an impairment loss, including economic and competitive conditions, operating costs and efficiencies. Another estimate using different, but still reasonable, assumptions could produce a significantly different result. In February 2006 we signed a non-binding letter of intent to sell Great Lakes Controlled Energy. To indicate if our goodwill would be impaired as a result of the expected sale, we compared the carrying value of the related reporting unit to the expected sale price of the business and determined that the goodwill was impaired. As a result we recorded an impairment loss as of December 31, 2005 of $242,830.

During the fourth quarter of 2007 we updated our projections for portions of the Energy Services and Energy Technology businesses and estimated the fair value based on the discounted current value of the estimated future cash flows. We then compared the calculated fair values of the reporting units to their carrying values. The analysis did not identify any impairment for the Energy Services business, but did determine that the value of the Energy Technology s goodwill was impaired. The decline in the fair value of the Energy Technology segment was primarily the result of lower than expected sales of the eMAC line of HVAC controllers, in large part due to delays in a project to upgrade the eMAC. As a result of the decline in the fair value, we recorded an impairment loss of $4,181,969 during the fourth quarter of 2007.

It is possible that upon completion of future impairment tests, as the result of changes in facts or circumstances, we may have to take additional charges in future periods to recognize a further write-down of the value of the goodwill attributed to our acquisitions to their estimated fair values.

***Stock-based Compensation***

We have a stock incentive plan that provides for stock-based employee compensation, including the granting of stock options and shares of restricted stock, to certain key employees. The plan is more fully described in Note 25 to our financial statements. Effective January 1, 2006, we adopted Statement of Financial Accounting Standards No. 123(R), Share-based Payment ( SFAS 123(R) ), which requires that we record stock compensation expense for equity-based awards granted, including stock options and restricted stock unit grants, over the service period of the equity-based award based on the fair value of the award at the date of grant. Prior to the adoption of SFAS 123(R), we accounted for stock compensation using the recognition and measurement principles of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. Under that method, compensation expense was recorded only if the current market price of the underlying stock on the date of grant exceeded the option exercise price. Since stock options are granted at exercise prices that are greater than or equal the market value of the underlying common stock on the date of grant under our stock incentive plan, no compensation expense related to stock options was recorded in the Consolidated Statements of Operations prior to January 1, 2006. We recognized $3,726,731 and $4,828,955 of stock compensation expense during 2007 and 2006, respectively.

**Material Trends and Uncertainties**

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

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

Recent changes in the composition of our company. In 2006 we established our energy services business through the acquisitions of Parke and Kapadia. Additional acquisitions and the opening of new offices have added to this business such that our Energy Services business generated approximately 81% of our consolidated revenue in 2007. Certain characteristics of this new business, such as seasonality, margins and working capital requirements, are fundamentally different that those of our previous business, therefore, we believe our historical results will not be indicative of our future performance. As an example, the Energy Services business appears to be somewhat seasonal with the strongest sales occurring in the second half of the year. This seasonality is likely to result in greater fluctuations in our revenue, earnings and working capital requirements throughout the year than we have historically experienced. Because certain of our expenses are relatively fixed as described below, seasonal fluctuations in the revenues of our energy services business are also likely to cause fluctuations in our gross margins during the year.

Uncertainty regarding our Energy Technology Segment. The Company was founded in 1997 for the purpose of marketing the EnergySaver line of energy efficient lighting controllers. In December 2006, due to changes in lighting technology, we discontinued the active marketing of the EnergySaver product and wrote off most of our remaining inventory and our investment in the Virtual Negawatt Power Plan. In May 2005, we added the eMAC and uMAC line of HVAC and lighting controllers (the eMAC line ) through the acquisition of Maximum Performance Group, Inc. To date, neither product line has reached the level of sales necessary to contribute to our profitability.

In late 2006, we commissioned an independent review of the market for the eMAC which concluded that there appears to be a good market for the product. We therefore began an engineering project to replace certain components that were being discontinued by their manufacturers, to add cellular communications capabilities and to enable LEED certification and UL listing approval. The project has experienced delays and cost overruns and, due to the limited availability of certain discontinued components for the existing version of the eMAC line, resulted in lower than expected sales of the eMAC during 2007. The Energy Technology segment incurred a significant loss during 2007, in part due to the fact that the sales and administrative overhead of this segment was positioned to support a higher level of eMAC sales than was actually achieved during the year. These events contributed to the determination that MPG s goodwill was impaired, resulting in the $4,181,969 impairment charge at the end of 2007.

We have retained an engineering consulting firm to assume responsibility for completing the eMAC upgrades with the objective of completing an upgraded version of the product in the second half of 2008. We have also reduced the overhead of this segment in an attempt to reduce its 2008 loss. While we continue to believe there is a good market for the eMAC product line, we have not determined whether we can achieve the scale necessary for it to become a profitable business. The successful completion of the eMAC engineering project during 2008 will be key to determining the future of this business. We are committed to turning around the performance of this segment and are carefully reviewing all of our alternatives for this business.

**Results of Operations**

Our revenue reflects the sale of our products and services, net of allowances for returns and other adjustments. Our revenue is generated from the sale of services and products, primarily in the U.S. Nine customers collectively accounted for approximately 50% of our consolidated billings during 2007, while three customers collectively accounted for approximately 40% of our consolidated billings during 2006.

The cost of goods sold for our Energy Services business consists primarily of materials, our internal labor and the cost of subcontracted labor. The costs of goods sold for our Energy Technology business include charges from the contract manufacturer that manufactures the eMAC line of controllers, charges from outside contractors used to install our product in our customers facilities, depreciation, freight and charges for potential future warranty claims.

Sales and gross profits depend in part on the volume and mix of products and services sold during any given period. A portion of our expenses, such as the cost of certain supervisory personnel, are relatively fixed. Accordingly, an increase in the volume of sales will generally result in an increase to our margins since these fixed expenses do not increase proportionately with sales.

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

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

Interest expense includes the costs and expenses associated with the mortgage on our headquarters building, the subordinated convertible term notes (including amortization of the related debt discount and issuance costs) and various vehicle loans, all as reflected on our current and prior financial statements. Also included in interest expense for 2006 are the costs and expenses associated with working capital indebtedness and two convertible term loans (including amortization of the related debt discount and deferred financing costs). The working capital line and convertible term loans were retired in full in June 2006.

**Twelve-Month Period Ended December 31, 2007 Compared With the Twelve-Month Period Ended December 31, 2006**

***Revenue.*** Our revenue increased $11,337,506, or 139%, to $19,481,130 during the year ended December 31, 2007, as compared to $8,143,624 for the year ended December 31, 2006. Of our 2007 revenue approximately 81% was derived from our Energy Services business and 19% was derived from our Energy Technology business. During 2006 Energy Services and Energy Technology generated 41% and 59% of our total revenue, respectively.

Revenue for our Energy Services segment was $16,182,172 during 2007, an increase of $12,880,158, or 390% over the $3,302,014 recognized in 2006. Contributing to the increase in revenue for the Energy Services segment was inclusion of Parke and Kapadia for a full year in 2007 (both were acquired during 2006), and the acquisitions of Texas Energy and Preferred Lighting during 2007. Revenue also benefited from an increase in the number of salespeople working in the segment and increased experience of our salespeople. Revenue for the Energy Services segment is expected to continue to grow as the salespeople added and the acquisitions made in 2007 contribute for a full year.

Revenue for the Energy Technology segment was $3,609,816 in 2007, a decline of $1,231,794 or 25%, from the $4,841,610 recorded in 2006. The decline in revenue was the result of our decision in December 2006 to discontinue the active marketing of the EnergySaver. Our eMAC related revenue was approximately flat in 2007 when compared to 2006. While the segment benefited from utility energy rebates for certain eMAC projects, eMAC sales declined approximately 25% due to limited availability of product resulting from delays in the development of a new version of the eMAC. We hope that the new version of the eMAC will be ready for distribution in the second half of 2008, in the meantime availability of the product will continue to be limited. As a result, we expect the 2008 revenue for the Energy Technology segment to be lower than the level achieved in 2007.

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During 2007 we recorded intercompany sales of $319,150 which represented sales from our Energy Technology segment to the Energy Services segment which resold the product to its customer.

The seasonality of revenue during 2008 is expected to be similar to that of 2007, with significantly higher revenue realized in the third and fourth quarters of the year compared to the first and second quarters.

***Gross Profit.*** Our gross profit for 2007 was $4,398,730, an increase of $3,186,400, or 263%, from the gross profit of $1,212,330 earned in 2006. Our gross profit margin was 22.6% in 2007, compared to 14.9% in 2006. The improvement in our gross profit was the result of increased revenue in our Energy Services segment. We believe that certain fixed costs contained in our cost of sales will not increase at the same rate as future revenue, which will contribute to increases in our gross margins in future periods. These same fixed costs will also cause fluctuations in our margins on a quarterly basis due to the seasonality of our sales.

***SG&A Expense.*** Our selling, general and administrative expense increased $906,681, or approximately 7%, to $13,072,381 in 2007 when compared to $12,165,700 in 2006. All of this increase was attributable to the inclusion of a full year of expenses for Parke and Kapadia (both of which were both acquired in 2006) and the additions of Texas Energy and Preferred Lighting during 2007. Our SG&A expense did not grow as fast as our revenue during 2007. As a result, SG&A expense as a percentage of our total revenue declined to 67% in 2007 from 149% in 2006. SG&A expense is expected to increase moderately in 2008 due to the inclusion of a full year of expense for our 2007 acquisitions and new hires, but is expected to continue to decline as a percentage of our total consolidated revenue.

***Amortization of Intangibles.*** Expense associated with the amortization of intangible assets increased $801,872, or 66%, to $2,011,878 in 2007, from $1,210,006 in 2006. This increase was primarily due to the increase in intangible assets added with the acquisitions of Texas Energy and Preferred Lighting during 2007. Absent any further acquisitions, amortization expense will decline to approximately $858,000 in 2008.

***Impairment Loss.*** During the fourth quarter of 2007, we completed an impairment analysis of our subsidiary, Maximum Performance Group Inc., and determined that its carrying value exceeded its fair value to the degree that the goodwill associated with this business was completely impaired. As a result we recorded an impairment charge of $4,181,969 in December 2007 to reduce the carrying value of the asset to zero.. The decline in the fair value at Maximum Performance Group was largely due to delays in an engineering project to upgrade the eMAC. Delays in completing this project adversely impacted the sales of the product during 2007, due to limited availability of components, and set back our marketing plans for the product.

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***Other Non-Operating Income (Expense).*** Other expense declined $2,393,958 during 2007 to $685,230, compared to $3,079,188 for 2006. Interest expense declined $2,321,277 to $952,093 in 2007 from $3,273,370 in 2006. The components of interest expense for the years ended December 31, 2007 and 2006 are as follows:

| *Year ended December 31* | **2007** | **2006** |
|---|---|---|
| Line of credit | **$** | **$ 50,344** |
| Note payable | **16,547** | **16,563** |
| Mortgage | **43,931** | **46,495** |
| Subordinated convertible notes | **293,683** | |
| Convertible term loans | | **249,065** |
| Other | **5,476** | **1,772** |
| Amortization of deferred issuance costs and debt discount | **592,456** | **1,175,970** |
| Prepayment penalty | | **516,071** |
| Value of adjustment in conversion Price | | **950,865** |
| Termination of post re-payment interest obligation | | **266,225** |
| Total Interest Expense | **$952,093** | **$3,273,370** |

Total contractual interest expense (the interest on outstanding loan balances) declined $4,602 in 2007 to $359,637, as compared to $364,239 in 2006. In June 2006 we repaid two convertible terms loans and our convertible revolving note was converted to common stock, which contributed to the decline in contractual interest expense. This was largely offset by new $5 million subordinated convertible term notes which we issued in June 2007.

Upon the repayment of the convertible term loans in June 2006, we were required to pay a prepayment penalty of $516,071 and to recognize as interest expense the remaining unamortized balance of the capitalized issuance costs and the debt discount totaling $978,525. During June 2006 we also incurred a charge of $266,225 related to the termination of our obligation to pay the term loan lender a portion of certain cash flows for a five-year period. Upon the closing of a PIPE transaction in June 2006 and the repayment of the term loans, the holder of a convertible revolving note elected to convert the outstanding balance on the note into shares of our common stock. The revolving note contained anti-dilution provisions which automatically adjusted the conversion price of the note to $7.00 per share, which is the price at which we issued shares as part of the June 2006 PIPE transaction. The lender would have received 5,557 shares of common stock upon conversion of the revolving note utilizing the conversion price prior to this adjustment, but as a result of the adjustment it received 134,779 shares. The market value of the 126,222 additional shares it received as a result of the adjustment was recorded as interest expense in the amount of $950,865.

**Twelve-Month Period Ended December 31, 2006 Compared With the Twelve-Month Period Ended December 31, 2005**

***Revenue.*** Our revenue increased $4,450,195, or 120% to $8,143,624 during the year ended December 31, 2006, as compared to $3,693,429 for the year ended December 31, 2005. Revenue generated by our Energy Services segment was responsible for $3,302,014 or 74% of the increase in our revenue for 2006. The Energy Services segment was created in 2006 through the acquisitions of Parke and Kapadia. During 2006 59% of our revenue was generated by the Energy Technology segment and 41% was generated by our Energy Services segment, while in 2005 100% of our revenue came from the Energy Technology segment.

The balance of the increase in revenue was generated by our Energy Technology segment due to increased eMAC sales, which was partially offset by lower EnergySaver sales. The increase in the eMAC revenue was due to the inclusion of a full year of results for MPG (MPG was acquired in May 2005) and higher unit sales.

***Gross Profit.*** Our gross profit increased $1,210,755 to $1,212,330 for the year ended December 31, 2006, as compared to $1,575 for the year ended December 31, 2005, while our gross profit margin increased to 14.9% for 2006 as compared to 0.04% earned in 2005. Included in the 2006 cost of sales was a $568,577 one time charge to write-off most of our EnergySaver inventory due to our decision to terminate the active marketing of this product. Adjusting for this charge, our gross profit for 2006 was $1,780,907, or 21.9% of sales. The increase in gross profit from 2005 was primarily attributable to increased sales of the eMAC and the acquisition of Parke on June 29, 2006. The 2006 cost of goods sold includes $296,953 of share based compensation expense resulting from our adoption of SFAS 123(R) on January 1, 2006. No share based compensation was included in the 2005 cost of goods sold.

***SG&A Expense.*** Our selling, general and administrative expense increased $6,802,197 or 127% to $12,165,700 for 2006, as compared to $5,363,503 for 2005. Approximately 67% or $4,532,001 of the increase in the 2006 SG&A was related to our adoption of SFAS 123(R) on January 1, 2006. We did not record stock compensation expense in 2005. Other significant items contributing to the increase in SG&A expense was $531,000 in penalties resulting from our inability to have the Laurus registration and the June PIPE registration declared effective within the timeframes required under the related documents, approximately $660,000 of SG&A expense resulting from the inclusion of Parke and Kapadia for portions of 2006 and approximately $680,000 from the inclusion of MPG for the full year.

***Amortization of Intangibles.*** Intangible Amortization expense increased $738,241 to $1,210,006 in 2006 from $471,765 in 2005. The increase in amortization expense was due to the acquisitions of Parke and Kapadia in 2006.

***Impairment Loss.*** During the quarter ended September 30, 2006, we completed a preliminary impairment analysis and determined that the carrying value of our VNPP ( Virtual Negawatt Power Plan ) asset exceeded its fair value by $760,488. In order to reduce the carrying value to the fair value we recorded a non-cash impairment charge of $760,488 in September 2006. During the fourth quarter of 2006 we updated our analysis based on new information and revised assumptions and determined that the asset was completely impaired. As a result we reduced the carrying value of the asset to $0 and recorded an additional impairment charge of $423,037 in December 2006. During 2005 recorded an impairment loss of $242,830 related to the reduction in carrying value of goodwill associated with Great Lakes Controlled Energy due to our decision to sell the company.

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***Other Non-Operating Income (Expense).*** Other Expense increased $2,534,935 during 2006 to $3,079,188, compared to $544,253. Interest expense increased $2,670,380 to $3,273,370 during 2006 from $602,990 during 2005. The components of interest expense for the years ended December 31, 2006 and 2005 are as follows:

| *Twelve months ended December 31,* | **2006** | **2005** |
|---|---|---|
| Contractual interest | **$ 364,239** | **$277,577** |
| Amortization of deferred issuance costs and debt discount | **1,175,970** | **165,413** |
| Value of warrant | | **160,000** |
| Value of adjustment in conversion price | **950,865** | |
| Prepayment penalties | **516,071** | |
| Termination of post re-payment interest Obligation | **266,225** | |
| Total Interest Expense | **$3,273,370** | **$602,990** |

Contractual interest expense (the interest on outstanding loan balances) increased $86,662 or 31% to $364,239 during 2006 from $277,577 in 2005. The increase in contractual interest was the result of higher average outstanding balances, due in part to the issuance of the $5 million term loan in November 2005 (which was repaid in June 2006), and higher average interest rates. Amortization of the deferred issuance costs and the debt discount related to the Laurus revolver and convertible term loans, which is included in interest expense, increased $1,010,557 to $1,175,970 during 2006 from $165,413 during 2005. With the early repayment of all of the Laurus loans in June 2006, we were required to recognize as interest expense the remaining unamortized balances of the capitalized issuance costs and the debt discount of $1,009,277. The balance of the increase in amortization expense was related to the amortization of deferred issuance costs associated with the $5 million term loan issued in November 2005. 2006 interest expense also includes prepayment penalties of $516,071 for the early repayment of the Laurus term loans and $266,225 for the cost of terminating the obligation to pay Laurus a portion of the cash flows generated by certain VNPP projects for the next five years. Upon the closing of the PIPE Transaction and repayment of the term loans in June 2006, Laurus elected to convert the outstanding balance on the revolving note into shares of our common stock. The revolving note contained anti-dilution provisions which automatically adjusted the conversion price of the note to $7.00 per share, which is the price at which we issued shares as part of the June 2006 PIPE transaction. The lender would have received 5,557 shares of common stock upon conversion of the revolving note utilizing the conversion price prior to this adjustment, but as a result of the adjustment it received 134,779 shares. The market value of the 126,222 additional shares it received as a result of the adjustment was recorded as interest expense in the amount of $950,865.

During April 2005 we issued a warrant to purchase 57,143 shares of our common stock to Laurus in exchange for its consent to a private equity issuance and the acquisition of MPG, as well as waiving its right to adjust the conversion price on its convertible term note and convertible revolving note. The warrant was valued at $160,000 using a modified Black-Scholes option pricing model and charged to interest expense during the period.

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***Preferred Stock Dividends***. Dividend expense recognized during the years ended December 31, 2005 and 2006 is comprised of the following:

| *Year ended December 31,* | **2006** | **2005** |
|---|---|---|
| Accrual of Series E Convertible Preferred dividend | **$ 698,000** | **$1,366,900** |
| Deemed dividend associated with change in conversion price of the Series E Convertible Preferred Stock | **23,085,467** | |
| Deemed dividend associated with change in the exercise price of warrants to purchase shares of common stock | **564,258** | **484,445** |
| Total | **$24,347,725** | **$1,851,345** |

Dividend expense increased $22,496,380 to $24,347,725 in 2006, from $1,851,345 in 2005. Dividends accrued on the outstanding Series E Convertible Preferred declined $668,900 to $698,000 in 2006 from $1,366,900 in 2005, due to the conversion of all of the outstanding Series E Convertible Preferred to common stock on June 29, 2006.

We have issued certain securities in the past that contain anti-dilution provisions (commonly referred to as ratchets) which automatically adjust the exercise or conversion price of the security if we issue any new equity security, or securities convertible into equity, at a price below the exercise or conversion price of the security with the anti-dilution provision. Primarily as a result of our declining stock price, we had three instances during 2006 where we had to adjust the exercise price or the conversion price on one or more securities, each of which resulted in us recording a charge for a non-cash deemed dividend. In January 2006 we issued stock options at the then current market price of $65.10 per share, which was less than the $96.60 exercise price on a warrant held by one of our former Series E Preferred stock holders. Adjusting the exercise price of this warrant resulted in a non-cash deemed dividend of $266,390.

On June 29, 2006, we issued shares in the PIPE Transaction at $7.00 per share (as discussed in Note 20 to our financial statements). The issuance price of the securities issued in this transaction was less than the conversion price on our Series E Convertible Preferred stock, which contained anti-dilution provisions. Prior to the anti-dilution adjustment the holders of the Series E Convertible Preferred stock would have been entitled to 224,861 shares of common stock on conversion, whereas after the adjustment they were entitled to 3,092,621 shares of common stock on conversion. The market value of the additional 2,867,760 shares receivable upon conversion was recorded as a non-cash deemed dividend in the amount of $23,085,467 on June 29, 2006.

In addition, a number of the outstanding common stock warrants, most of which were held by former holders of our Series E Convertible Preferred Stock, also contained similar anti-dilution provisions. Prior to the June 2006 PIPE Transaction the exercise price on these warrants ranged from $94.50 per share to $105.00 per share. The issuance of common stock in the June 2006 PIPE Transaction caused the exercise price on these warrants to automatically be reduced to $7.00 per share. We compared the value of the warrants with the old exercise price to the value of the warrants with the reduced exercise price, using a modified Black-Scholes option pricing model and determined that the reduction in the

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exercise price had increased the value of the warrants by $297,868. We recognized the expense as a deemed dividend by offsetting charges and credits to additional paid-in capital, without any effect on total stockholders equity.

On April 28, 2005, in exchange for $5,625,000 in gross proceeds, we issued a package of securities to five institutional investors. The package of securities included 59,524 shares of our common stock and 42-month warrants to purchase 29,762 additional shares of common stock at $110.25 per share. The issuance of these shares caused the exercise price of certain warrants with anti-dilution provisions to automatically adjust to $94.50 per share. We compared the value of the warrants with the old exercise price to the value of the warrants with the reduced exercise price, through the use of a modified Black-Scholes option pricing model, and determined that the reduction in the exercise price had increased the value of the warrants by $484,445. Since these warrants were issued as part of a securities offering the increase in value is considered to be a deemed dividend to the security holders. We recorded the deemed dividend by offsetting charges and credits to additional paid-in capital, without any effect on total stockholders equity.

**Liquidity and Capital Resources**

During the twelve-month period ended December 31, 2007 we incurred a net loss of $15.6 million and used $6.8 million of cash for operating activities. We have taken steps to improve our current liquidity and provide the growth capital necessary to fund our plan for 2008 and for future growth.

As of December 31, 2007, we had cash and cash equivalents of $4,780,701, compared to cash and cash equivalents of $4,663,618 on December 31, 2006. Our contractual obligations as of December 31, 2007 totaled $9,186,480, and include: $6,909,932 of debt (includes expected interest payments of $1,077,993); $870,541 in office leases; and $2,634,000 under various employment agreements.

Our principal cash requirements are for operating expenses, including employee costs, the costs related to research and development, the cost of outside services including those providing contract manufacturing, accounting, legal, engineering and electrical contracting services, and the funding of inventory and accounts receivable, and capital expenditures. We have financed our operations since inception primarily through the private placement of our common and preferred stock, as well as through various forms of secured debt.

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

| *Year ended December 31* | **2007** | **2006** | **2005** |
|---|---|---|---|
| Net cash used in operating activities | **$ (6,774,805)** | **$ (6,248,085)** | **$ (6,956,642)** |
| Net cash used in investing activities | **(1,217,834)** | **(4,264,930)** | **(2,181,846)** |
| Net cash provided by financing activities | **8,109,722** | **10,947,483** | **11,577,830** |
| Net Increase in Cash and Cash Equivalents | **117,083** | **434,468** | **2,439,342** |
| Cash and Cash Equivalents, at beginning of period | **4,663,618** | **4,229,150** | **1,789,808** |
| Cash and Cash Equivalents, at end of period | **$ 4,780,701** | **$ 4,663,618** | **$ 4,229,150** |

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**2007 Compared to 2006**

Net cash increased $117,083 and $434,468 during the years ended December 31, 2007 and 2006, respectively.

*Operating Activities*

Operating activities consumed cash of $6,774,805 during the year ended December 31, 2007 as compared to consuming cash of $6,248,085 during the year ended December 31, 2006.

Whether cash is consumed 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, we like to split the cash used or provided by operating activities into two pieces: 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 was $3,846,148 during 2007, a $1,777,930 or 32% reduction from the $5,624,078 consumed during 2006. This reduction was the result of increased sales and improvements in our gross profit during 2007. We believe that we will see additional reductions in the cash consumed by operating activities before changes in working capital if our revenue and profitability continue to improve as we believe they will, to the point that our operations will begin to generate cash before changes in working capital in future periods.

Changes in working capital consumed $2,928,657 during 2007 as compared to consuming $624,007 during 2006. The increase in working capital was the result of the impact of higher sales during 2007, particularly during the fourth quarter of 2007. We expect our working capital requirements to continue to increase with increases in our sales in future periods, though we hope improvements in our receivables turnover and reductions in our inventory will keep the growth in working capital to a rate that is lower than the growth of our future sales.

*Investing Activities*

Investing activities consumed $1,217,834 during 2007 as compared to consuming $4,264,930 during 2006. During 2007 we acquired the assets and assumed certain liabilities of Texas Energy Products and Preferred Lighting in two separate transactions. The cost of the acquisitions, including transaction costs, net of cash acquired was $703,539. During 2006 we acquired Parke P.A.N.D.A. Corporation and Kapadia Consulting for $4,098,377, including cash consideration and transaction costs, net of the cash acquired. Also during 2006 we sold all of the stock of Great Lakes Controlled Energy Corporation to the former owners of that company. Great Lakes cash balances of $83,586 were transferred with the sale of the company. Fixed asset purchases increased $431,328 to $514,295 during 2007 from $82,967 during 2006. The increase was primarily related to purchases of additional delivery vehicles required to support our increased level of business activity and acquisition of a new accounting system and related hardware.

*Financing Activities*

Financing activities generated cash of $8,109,722 during 2007 as compared to generating $10,947,483 during 2006. In April 2007 we received the proceeds from a stockholder rights offering which raised $2,999,632 and incurred issuance costs of $248,293. During May and June of 2007 we raised $5,000,000 through the issuance of subordinated convertible term notes to a group of eight investors, incurring issuance costs of $8,572 in the process. We also borrowed $171,440 during 2007 to fund the purchase of new delivery vehicles, made scheduled payments of $56,592 on our mortgage and vehicle loans and received $252,107 from the exercise of options and warrants.

**2006 Compared to 2005**

Net cash increased $434,468 and $2,439,342 during the years ended December 31, 2006 and 2005, respectively.

*Operating Activities*

The net cash consumed in operating activities declined $708,557 or 10% to $6,248,085 in 2006 compared to $6,956,642 in 2005. The cash consumed before changes in working capital increased $209,099 or 4% to $5,624,078 in 2006 compared to $5,414,979 in 2005. The increase in cash consumed was primarily the result of our net loss.

The cash consumed by working capital declined 60% or $917,656 to $624,007 in 2006 from $1,541,663 consumed in 2005. Contributing to this reduction were improvements in accounts receivable collections, reductions in inventories and the use of the advance to suppliers.

*Investing Activities*

Cash consumed in investing activities increased $2,083,084 to $4,264,930 in 2006 from $2,181,846 in 2005. During 2006 we used cash of $4,098,377 to fund the acquisitions of Parke and Kapadia. As part of the acquisition of Parke we paid the selling stockholder $2.72 million in cash and incurred expenses related to the transaction of $145,605, which was partially offset by cash balances of $1,710 acquired as part of the transaction. Cash used to fund the Kapadia acquisition included $1,250,000 for the cash portion of the purchase consideration and $31,811 for expenses, partially offset by $47,329 of cash acquired in the transaction. We sold all of the stock of Great Lakes Controlled Energy Corporation to the former owners of that company in March 2006. Great Lakes cash balances of $83,586 were transferred with the sale of the company. We also invested $82,967 in property, plant and equipment during the year, most of which was associated with purchases of computer equipment for new employees and service vehicles for use in our Energy Services segment

During 2005, we used $1,632,972 for the acquisition of Maximum Performance Group, including $1,632,078 paid to the selling shareholders, and $137,386 of transaction costs less cash acquired of $136,492. We also invested $478,249 in VNPP assets and purchased furniture, equipment and vehicles totaling $70,625.

*Financing Activities*

During 2006 we generated net cash of $10,947,483 through financing activities as compared to generating $11,577,830 of net cash during 2005. In June 2006 we raised $17,875,000 in gross proceeds through the sale of our common stock, while incurring $115,107 in costs related to the issuance. We used $5,038,030 million of the proceeds to pre-pay the principal on two Laurus convertible term loans and Laurus converted $943,455 outstanding on the revolving note to common stock. Also during 2006 we used $1,056,545 to pay down our revolver, $317,835 for scheduled principal payments and $400,000 to pay off the balance on a revolving line credit assumed as part of the acquisition of Parke.

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***LIQUIDITY***

Our primary sources of liquidity are our available cash reserves of $4,780,701 and a $3 million revolving credit note which was arranged in March 2008. This new revolving credit note matures on March 31, 2009 and bears interest at 17% per annum, with 12% payable in cash and the remaining 5% to be capitalized and added to the principal balance on the note. The note also requires the payment of an unused funds fee of 4% per annum on the unused portion of the note. We may borrow any amount, at any time during the term of the note as long as it is not in default at the time of the advance.

During fiscal 2007, operating activities consumed cash of $6.8 million.

Our ability to continue to expand the sales of our products and services will require the continued commitment of significant funds. The actual timing and amount of our future funding requirements will depend on many factors, including the amount, timing and profitability of future revenues, working capital requirements, the level and amount of product marketing and sales efforts and the magnitude of research and development, 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 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 in 2008:

Focus on increasing the sales and profitability of our products and services. During the past two years we have increased our revenue by $15,787,701, or 427% and we saw our gross profit increase from $1,575 to $4,398,720. This improvement in our gross profit was largely offset by $7,708,878 increase in our SG&A ($3,982,147 excluding non-cash share based compensation) over the period, the result of acquisitions and the addition of sales and administrative support personnel. However, we believe that we have the infrastructure in place to support a doubling of revenue in 2008, without the need to increase our headcount significantly from current levels. If we can achieve this, we believe we will significantly reduce or eliminate the cash consumed from operating activities, before changes in working capital.

Turn around the performance of our Energy Technology segment. Largely as a result of lower than expected sales, our Energy Technology segment recorded an operating loss of approximately $8.2 million during 2007, or 55% of our total operating loss. Part of the failure to achieve scale in this business is due to delays in getting a new version of the eMAC into production. We have taken steps to address this issue and hope that the new version of the eMAC will be available during the second half of 2008. We have secured a supply of discontinued parts to allow us to continue to service and sell to existing customers on a limited basis until the new version is available. In the meantime, we have taken steps to reduce the overhead costs of this segment to better align them with the anticipated level of business activity. Based on marketing studies commissioned in 2007, and our experience marketing the product since forming Lime Energy, we believe there is a good market for this segment s products and we have an established base of customers to build upon. We are committed to turning around the performance of this segment and are carefully reviewing all of our alternatives for this business.

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.

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We believe that if we are successful in achieving these priorities we should have sufficient liquidity to allow us to operate until our operations turn cash flow positive. If we are not able to achieve some or all of these priorities, we may begin to experience a liquidity shortage in the latter half of 2008 which could force us to raise additional capital, scale back our growth plans, or in the worst case cease operations.

If in the future we raise additional capital (which may require stockholder approval), our existing stockholders, to the extent they do not participate in the capital raise, will likely experience dilution of their present equity ownership position and voting rights, depending upon the number of shares issued and the terms and conditions of the issuance. If we raise capital through the issuance of additional equity, the new equity securities issued may have rights, preferences or privileges senior to those of our common stock.

*Off-Balance Sheet Arrangements*

None.

*Contractual Obligations*

Our obligations to make future payments under contracts as of December 31, 2007 are as follows:

| | Payments due by period | | | | |
|---|---|---|---|---|---|
| Contractual Obligations | **Total** | **Less than 1 year** | **1 to 3 years** | **3 to 5 years** | **More than 5 years** |
| Long-term debt *(1)(2)(3)* | **$ 6,909,932** | **$ 590,860** | **$ 6,250,639** | **$ 67,884** | **$ 549** |
| Operating leases | **870,541** | **337,796** | **447,466** | **85,279** | |
| Employment agreements | **2,634,000** | **1,144,000** | **1,490,000** | | |
| Total | **$ 9,186,480** | **$ 2,072,656** | **$ 8,188,105** | **$ 153,163** | **$ 549** |

(1) Excludes floating rate interest on the long-term debt. Interest payments required during 2008, based on current interest rates are projected to be $32,000.

(2) Includes $602,740 of interest on subordinated notes payable in shares of common stock

(3) $5,000,000 in subordinated

convertible notes will automatically convert to common stock if the closing price on our common stock is $10.50 or greater for 20 days in a 30 day period at any time after May 31, 2008.

**Recent Accounting Pronouncements**

In July 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 ( FIN 48 ). FIN 48 provides guidance on the financial statement recognition and measurement of a tax position taken or expected to be taken in a return. FIN 48 requires that companies recognize in their financial statements the impact of a tax position if that position more likely than not will be sustained on an audit, based on the technical merits of the position. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transition provisions. We adopted FIN 48 on January 1, 2007. As a result of the implementation of FIN 48, no adjustment to retained earnings was made.

Our subsidiaries file income tax returns in various tax jurisdictions, including the United States and certain U.S. states. We had substantially concluded all US Federal and State income tax matters for years up to and including 2001.

We recorded a valuation allowance equaling the deferred tax asset due to the uncertainty of our realization in the future. At December 31, 2007, we had US federal net operating loss carryforwards available to offset future taxable income of approximately $75 million, which expire in the years 2018 through 2026. Under section 382 of the Internal Revenue Code of 1986, as amended, the utilization of US net operating loss carryforwards may be limited under the change in stock ownership rules of the IRC. As a result of ownership changes as defined by Section 382, which have occurred at various points in our history, we believe utilization of our net operating loss carryforwards will likely be significantly limited under certain circumstances. We are currently in the process of calculating the potential Section 382 limitations.

Our policy is to recognize interest and penalties related to income tax matters in interest and income tax expense respectively. There were no interest and penalties related to income taxes recorded at January 1, 2007, the date of adoption of FIN 48.

In September 2006, the FASB issued Statement of Financial Accounting Standards, Fair Value Measurements ( Statement No. 157 ). Statement No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. The statement does not require new fair value measurements, but is applied to the extent that other accounting pronouncements require or permit fair value measurements. The statement emphasizes that fair value is a market-based measurement that should be determined based on the assumptions that market participants would use in pricing an asset or liability. Companies will be required to disclose the extent to which fair value is used to measure assets and liabilities, the inputs used to develop the measurements, and the effect of certain of the measurements on earnings (or changes in net assets) for the period. Certain requirements of Statement No. 157 are required for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The effective date for other requirements of Statement No. 157 has been deferred for one year by the FASB. The Company does not expect adoption of the sections of Statement No. 157 which are effective for fiscal years beginning after

November 15, 2007 to have a material effect on the Company s consolidated financial statements. We are currently evaluating the impact of the delayed Sections of Statement No. 157 on its consolidated financial statements, but has not yet determined the impact of its adoption.

In February 2007, the FASB issued Statement of Financial Accounting Standards The Fair Value Option for Financial Assets and Liabilities ( Statement No. 159 ). Statement No. 159 will become effective as of the beginning of the first fiscal year beginning after November 15, 2007. Statement No. 159 provides companies with an option to report selected financial assets and liabilities at fair value that are not currently required to be measured at fair value. Accordingly, companies would then be required to report unrealized gains and losses on these items in earnings at each subsequent reporting date. The objective is to improve financial reporting by providing companies with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently. Statement No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The adoption of Statement No. 159 in the first quarter of 2008 is not expected to have a material impact on our consolidated financial statements as we do not expect to elect the fair value option for any financial assets or liabilities.

In December 2007, the FASB issued Statement No. 141 (Revised 2007), Business Combinations ( Statement No. 141R ), effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Statement No. 141R establishes principles and requirements on how an acquirer recognizes and measures in its financial statements identifiable assets acquired, liabilities assumed, noncontrolling interests in the acquiree, goodwill or gain from a bargain purchase and accounting for transaction costs. Additionally, Statement No. 141R determines what information must be disclosed to enable users of the financial statements to evaluate the nature and financial effects of the business combination. We will adopt Statement No. 141R on January 1, 2009.

In December 2007, the FASB issued Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51. ( Statement No. 160 ) Statement No. 160 requires entities to report noncontrolling (minority) interests as a component of shareholders equity on the balance sheet; include all earnings of a consolidated subsidiary in consolidated results of operations; and treat all transactions between a parent and its noncontrolling interest as equity transactions provided the parent does not lose control. Statement No. 160 is effective for fiscal years beginning on or after December 15, 2008, must be adopted concurrently with SFAS 141R, and adoption is prospective only; however, presentation and disclosure requirements described above must be applied retrospectively. We are currently evaluating the impact that Statement No. 160 will have on our financial statements and disclosures.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk.**

The only significant exposure we have to market risk is the risk of changes in market interest rates. The interest rate on our mortgage is variable and changes with changes in the prime rate. The interest rate on the mortgage is equal to the prime rate plus $^1/_2$%. As of December 31, 2007, the prime rate was 7.25%. If the prime rate were to increase 1 percentage point, the aggregate annual interest cost on the mortgage would increase by approximately $4,900.

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**Item 8. Financial Statements and Supplementary Data.**

Index to Financial Statements:



**Item 9. Change in and Disagreements with Accountants on Accounting and Financial Disclosure.**

None.

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**Item 9A(T). Controls and Procedures.**

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company s Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to the Company s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by SEC Rule 13a-15(b), the Company carried out an evaluation, under the supervision and with the participation of the Company s management, including the Company s Chief Executive Officer and the Company s Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures as of the end of the period covered by this report. Based on the foregoing, the Company s Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures were effective.

***Management s Annual Report on Internal Control Over Financial Reporting***

Our management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes policies and procedures for maintaining records that in reasonable detail accurately and fairly reflect our transactions; providing reasonable assurance that transactions are recorded as necessary for the preparation of our financial statements; providing reasonable assurance that receipts and expenditures of the Company are made in accordance with management authorization; and providing reasonable assurance that unauthorized acquisition, use or disposition of Company assets that could have a material effect on our financial statements would be prevented or detected on a timely basis. Because of inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected.

Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the Company s internal control over financial reporting was effective as of December 31, 2007.

This annual report does not include an attestation report of the company s registered public accounting firm regarding internal control over financial reporting. Management s report was not subject to attestation by the company s registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the company to provide only management s report in this annual report.

***Changes in Internal Control Over Financial Reporting***

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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**Item 9B. Other Information.**

None.

**PART III**

Certain information required to be included in Part III is omitted from this report because we intend to file a definitive Proxy Statement pursuant to Regulation 14A (the Proxy Statement ) no later than 120 days after the end of the fiscal year covered by this report, and certain information to be included therein is incorporated herein by reference.

**Item 10. Directors, Executive Officers and Corporate Governance.**

Information required by this item regarding our directors and executive officers and compliance by our directors, executive officers and certain beneficial owners of our common stock with Section 16(a) of the Exchange Act is incorporated by reference to all information under the captions entitled Election of Directors, Executive Officers, and Section 16(a) Beneficial Ownership Reporting Compliance in the Proxy Statement. Information required by this item regarding our codes of ethics is incorporated by reference to all information under the caption Codes of Conduct and Business Ethics in the Proxy Statement. Information required by this item regarding our separately designated standing Audit Committee and our Audit Committee Financial Experts is incorporated by reference to all information under the caption Committees of the Board of Directors Audit Committee in the Proxy Statement. We had no material changes to procedures by which security holders may recommend nominees to our Board of Directors.

**Item 11. Executive Compensation.**

Information required by this item regarding compensation of our named executive officers is incorporated by reference to all information under the caption Executive Compensation in the Proxy Statement. Information required by this item regarding compensation of our directors is incorporated by reference to all information under the caption Compensation of Directors in the Proxy Statement. Information required by this item regarding our Compensation Committee interlocks and insider participation is incorporated by reference to all information under the caption Compensation Committee Interlocks and Insider Participation. Information required by this item regarding the report of our Compensation Committee is incorporated by reference to all information under the caption Compensation Committee Report.

**Item 12. Security Ownership of Certain Beneficial Owners and Management.**

Information required by this item regarding security ownership of certain beneficial owners, directors and executive officers is incorporated by reference to all information under the caption Security Ownership of Principal Stockholders and Management Beneficial Owners of Greater than 5% of Each Class of Our Common Stock and Directors and Executive Officers in the Proxy Statement. Information required by this item regarding our equity compensation plans, including both stockholder approved plans and plans not approved by stockholders, is incorporated by reference to all information under the caption Stock Options and Incentive Compensation in the Proxy Statement.

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**Item 13. Certain Relationships and Related Transactions, and Director Independence.**

Information required by this item regarding certain relationships and related transactions is incorporated by reference to all information under the caption  Transactions with Related Persons  in the Proxy Statement. Information required by this item regarding the review and approval of related-party transactions is incorporated by reference to all information under the caption  Review, Approval or Ratification of Transactions with Related Persons,  Information required by this item regarding the director independence is incorporated by reference to all information under the caption  Independent Directors,

**Item 14. Principal Accountant Fees and Services.**

Information required by this item regarding principal auditor fees and services is incorporated by reference to all information under the caption  Independent Auditors  Fees  in the Proxy Statement. Information required by this item regarding our Audit Committee s pre-approval policies and procedures and the status of our auditors  employees is incorporated by reference to all information under the captions  Procedures for Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditor,

**PART IV**

**Item 15. Exhibits and Financial Statement Schedules.**

**(a)(1) Financial Statements**

The information required by this item is included in Item 8 of Part II of this report.

**(a)(2) Financial Statement Schedule**

The information required by this item is included in Item 8 of Part II of this report.

**(a)(3) Exhibits**

See Item 15(b) below.

**(b) Exhibits**

| Exhibit Number | Description of Exhibit |
|---|---|
| 2.1 | Agreement and Plan of Merger, dated as of April 29, 2005, by and among the Company, MPG Acquisition Corporation, and Maximum Performance Group, Inc. (Incorporated herein by reference to Exhibit 10.2 of the Company s Current Report on Form 8-K dated April 28, 2005 and filed on May 4, 2005) |
| 2.2.1 | Agreement and Plan of Merger, dated as of May 19, 2006, by and among the Company, Parke Acquisition LLC, and Parke P.A.N.D.A. Corporation (Incorporated herein by reference to Exhibit 10.1 of the Company s Current Report on Form 8-K dated May 19, 2006 and filed on May 22, 2006) |

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| Exhibit Number | Description of Exhibit |
|---|---|
| 2.2.2 | Joinder and Amendment to Agreement and Plan of Merger by and among the Company, Parke Acquisition LLC, and Parke P.A.N.D.A. Corporation (Incorporated herein by reference to Exhibit 10.1 of the Company s Current Report on Form 8-K dated June 29, 2006 and filed on July 6, 2006) |
| 2.3 | Agreement and Plan of Merger dated September 26, 2006 by and among the Company, Kapadia Acquisition, Inc., Kapadia Consulting, Inc., and Pradeep Kapadia (Incorporated herein by reference to Exhibit 10.1 of the Company s Current Report on Form 8-K dated September 26, 2006 and filed on September 29, 2006) |
| 3.1.1 | Certificate of Incorporation (Incorporated herein by reference to Exhibit 3.01 of the Company s Amendment No. 4 to Form S-1 filed on February 14, 2007 (File No. 333-136992)) |
| 3.1.2 | Certificate of Amendment to Certificate of Incorporation dated August 30, 2001 (Incorporated herein by reference to Exhibit 3.02 of the Company s Amendment No. 4 to Form S-1 filed on February 14, 2007 (File No. 333-136992)) |
| 3.1.3 | Certificate of Amendment to Certificate of Incorporation dated July 31, 2002 (Incorporated herein by reference to Exhibit 3.03 of the Company s Amendment No. 4 to Form S-1 filed on February 14, 2007 (File No. 333-136992)) |
| 3.1.4 | Certificate of Amendment to Certificate of Incorporation dated May 4, 2005 (Incorporated herein by reference to Exhibit 3.04 of the Company s Amendment No. 4 to Form S-1 on February 14, 2007 (File No. 333-136992)) |
| 3.1.5 | Certificate of Amendment to Certificate of Incorporation dated January 23, 2007 (Incorporated herein by reference to Exhibit 3.05 of the Company s Amendment No. 4 to Form S-1 filed on February 14, 2007 (File No. 333-136992)) |
| 3.1.6 | Certificate of Ownership and Merger Merging Lime Energy Subsidiary Company into Electric City Corp. (Incorporated herein by reference to Exhibit 3.06 of the Company s Amendment No. 4 to Form S-1 filed on February 14, 2007 (File No. 333-136992)) |
| 3.1.7 | Certificate of Designations, Preferences and Relative, Participating, Optional and Other Special Rights of Preferred Stock and Qualifications, Limitations and Restrictions Thereof of Series A Convertible Preferred Stock of the Company dated August 30, 2001 (Incorporated herein by reference to Exhibit 3.07 of the Company s Amendment No. 4 to Form S-1 filed on February 14, 2007 (File No. 333-136992)) |
| 3.1.8 | Certificate of Designations of the Relative Rights and Preferences of the Series B Convertible Preferred Stock of the Company dated October 13, 2000 (Incorporated herein by reference to Exhibit 3.08 of the Company s Amendment No. 4 to Form S-1 filed on February 14, 2007 (File No. 333-136992)) |
| 3.1.9 | |

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|---|---|
| | Certificate of Designations, Preferences and Relative, Participating, Optional and Other Special Rights of Preferred Stock and Qualifications, Limitations and Restrictions Thereof of Series C Convertible Preferred Stock of the Company dated June 3, 2002 (Incorporated herein by reference to Exhibit 3.09 of the Company s Amendment No. 4 to Form S-1 filed on February 14, 2007 (File No. 333-136992)) |
| 3.1.10 | Certificate of Designations, Preferences and Relative, Participating, Optional and Other Special Rights of Preferred Stock and Qualifications, Limitations and Restrictions Thereof of Series D Convertible Preferred Stock of the Company dated June 26, 2003 (Incorporated herein by reference to Exhibit 3.10 of the Company s Amendment No. 4 to Form S-1 filed on February 14, 2007 (File No. 333-136992)) |

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| Exhibit Number | Description of Exhibit |
|---|---|
| 3.1.11 | Certificate of Designations, Preferences and Relative, Participating, Optional and Other Special Rights of Preferred Stock and Qualifications, Limitations and Restrictions Thereof of Series E Convertible Preferred Stock of the Company dated March 18, 2004 (Incorporated herein by reference to Exhibit 3.11 of the Company s Amendment No. 4 to Form S-1 filed on February 14, 2007 (File No. 333-136992)) |
| 3.2 | Amended and Restated Bylaws, as amended (Incorporated herein by reference to Exhibit 3.1 of the Company s Current Report on Form 8-K dated June 8, 2007 and filed June 11, 2007) |
| 4.1* | Specimen Stock Certificate |
| 4.2.1 | 2001 Stock Incentive Plan (Incorporated herein by reference to Annex B of the Company s Proxy Statement on Form 14A filed on April 28, 2006) |
| 4.2.2 | Amendment to Stock Incentive Plan (Incorporated herein by reference to Annex A of the Company s Proxy Statement on Form 14A on April 28, 2006) |
| 4.3 | Amended and Restated Directors Stock Option Plan (Incorporated herein by reference to Exhibit 4.63 of the Company s Quarterly Report on Form 10-Q for the period ended March 31, 2004 and filed on May 13, 2004) |
| 4.4 | Form of Common Stock Warrant Used to Pay Certain Vendors (Incorporated herein by reference to Exhibit 4.44 of the Company s Annual Report on Form 10-K/A for the year ended December 31, 2004 and filed on April 14, 2005) |
| 4.5 | Form of Common Stock Warrant (with Cashless Exercise Provision) Used to Pay Certain Vendors (Incorporated herein by reference to Exhibit 4.45 of the Company s Annual Report on Form 10-K/A for the year ended December 31, 2004 and filed on April 14, 2005) |
| 4.6 | Form of Common Stock Warrant, With Vesting Period issued April 28, 2005 Incorporated herein by reference to Exhibit 4.1 of the Company s Current Report on Form 8-K dated April 28, 2005 and filed on May 4, 2005) |
| 4.7 | Form of Common Stock Warrant, Without Vesting Period issued April 28, 2005 Incorporated herein by reference to Exhibit 4.2 of the Company s Current Report on Form 8-K dated April 28, 2005 and filed on May 4, 2005) |
| 4.8 | Stock Trading Agreement dated as of April 29, 2005 Incorporated herein by reference to Exhibit 4.3 of the Company s Current Report on Form 8-K dated April 28, 2005 and filed on May 4, 2005) |
| 4.9 | Warrant Certificate dated November 22, 2005 to Purchase 2,000,000 shares of common stock Par Value $0.0001 Per Share, of the Company issued to Laurus Master Fund, Ltd. (Incorporated herein by reference to Exhibit 4.1 of the Company s Current Report on Form 8-K/A dated November 22, 2005 and filed on February 9, 2006) |

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|---|---|
| 4.10 | Registration Rights Agreement dated November 22, 2005 by and between the Company and Laurus Master Fund, Ltd. (Incorporated herein by reference to Exhibit 4.2 of the Company s Current Report on Form 8-K/A dated November 22, 2005 and filed on February 9, 2006) |
| 4.11 | Employee Stock Option Agreement dated June 30, 2006 between the Company and Daniel Parke (Incorporated herein by reference to Exhibit 10.5 of the Company s Current Report on Form 8-K dated June 29, 2006 and filed on July 6, 2006) |
| 4.12 | Employee Stock Option Agreement dated July 11, 2006 between the Company and David Asplund (Incorporated herein by reference to Exhibit 10.1 of the Company s Current Report on Form 8-K dated July 11, 2006 and filed on July 17, 2006) |
| 4.13 | Employee Stock Option Agreement dated July 11, 2006 between the Company and Daniel Parke (Incorporated herein by reference to Exhibit 10.2 of the Company s Current Report on Form 8-K dated July 11, 2006 and filed on July 17, 2006) |

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| Exhibit Number | Description of Exhibit |
|---|---|
| 4.14 | Employee Stock Option Agreement dated July 11, 2006 between the Company and Jeffrey Mistarz (Incorporated herein by reference to Exhibit 10.3 of the Company s Current Report on Form 8-K dated July 11, 2006 and filed on July 17, 2006) |
| 4.15 | Employee Stock Option Agreement dated July 11, 2006 between the Company and Leonard Pisano (Incorporated herein by reference to Exhibit 10.4 of the Company s Current Report on Form 8-K dated July 11, 2006 filed on July 17, 2006) |
| 4.16 | Employee Option Agreement dated August 15, 2006 between the Company and Jeffrey Mistarz (Incorporated herein by reference to Exhibit 10.2 of the Company s Current Report on Form 8-K dated August 15, 2006 filed on August 18, 2006) |
| 4.17 | Warrant Certificate dated May 29, 2007 to purchase shares of common stock, par value $0.0001 per share, of the Company issued Richard P. Kiphart (Incorporated herein by reference to Exhibit 4.1 of the Company s Current Report on Form 8-K dated May 29, 2007 filed on May 30, 2007) |
| 10.1 | Common Stock Purchase Warrant dated September 11, 2003 issued by the Company in favor of Laurus Master Fund, Ltd. (Incorporated herein by reference to Exhibit 10.5 of the Company s Current Report on Form 8-K dated September 11, 2003 and filed on September 16, 2003) |
| 10.2 | Form of Secured Convertible Revolving Note dated September 11, 2003, made by the Company in favor of Laurus Master Fund, Ltd. (Incorporated herein by reference to Exhibit 10.9 of the Company s Current Report on Form 8-K dated September 11, 2003 and filed on September 16, 2003) |
| 10.3 | Securities Purchase Agreement dated March 19, 2004, among the Company and Security Equity Fund, Mid Cap Value Series, SBL Fund, Series V, Security Mid Cap Growth and SBL Fund Series J (Incorporated herein by reference to Exhibit 10.1 of the Company s Current Report on Form 8-K dated March 19, 2004 and filed on March 23, 2004) |
| 10.4 | Redemption and Exchange Agreement dated March 19, 2004, by and among the Company and Newcourt Capital USA Inc., Morgan Stanley Dean Witter Equity Funding, Inc., Originators Investment Plan, L.P., Cinergy Ventures II, LLC, Leaf Mountain Company, LLC, SF Capital Partners, Ltd., Richard Kiphart, David P. Asplund, John Thomas Hurvis Revocable Trust, John Donohue, Augustine Fund, LP, and Technology Transformation Venture Fund, LP (Incorporated herein by reference to Exhibit 10.2 of the Company s Current Report on Form 8-K dated March 19, 2004 and filed on March 23, 2004) |
| 10.5.1 | Third Amended and Restated Mortgage, Assignment of Rents and Security Agreement dated December 13, 2005 by the Company and American Chartered Bank (Incorporated herein by reference to Exhibit 10.1 of the Company s Current Report on Form 8-K dated December 13, 2005 and filed on December 15, 2005) |
| 10.5.2 | |

| | |
|---|---|
| | Fourth Modification to Mortgage, Assignment of Rents and Security Agreement dated December 28, 2006 by the Company and American Chartered Bank (Incorporated herein by reference to Exhibit 10.1 of the Company s Current Report on Form 8-K dated December 28, 2006 and filed on December 29, 2006) |
| 10.6 | Employment Agreement, dated as of May 3, 2005, between the Company and Leonard Pisano (Incorporated herein by reference to Exhibit 10.31 of the Company s Annual Report on Form 10-K for the year ended December 31, 2005 and filed March 21, 2006) |
| 10.7 | Consulting Agreement with John Mitola dated January 21, 2006 (Incorporated herein by reference to Exhibit 10.1 of the Company s Current Report on Form 8-K dated January 22, 2006 and filed on January 26, 2006) |

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| Exhibit Number | Description of Exhibit |
| --- | --- |
| 10.8 | Employment Agreement, dated as of January 23, 2006, between the Company and David Asplund (Incorporated herein by reference to Exhibit 10.1 of the Company s Current Report on Form 8-K dated January 22, 2006 and filed on February 22, 2006) |
| 10.9 | Stock Purchase Agreement dated as of April 3, 2006 between the Company, Eugene Borucki and Denis Enberg (Incorporated herein by reference to Exhibit 10.1 of the Company s Current Report on Form 8-K dated April 3, 2006 and filed on April 7, 2006) |
| 10.10 | Non-Competition, Non-Disclosure And Non-Solicitation Agreement Dated as of March 31, 2006 between the Company and Eugene Borucki (Incorporated herein by reference to Exhibit 10.2 of the Company s Current Report on Form 8-K dated April 3, 2006 and filed on April 7, 2006) |
| 10.11 | Non-Competition, Non-Disclosure And Non-Solicitation Agreement Dated as of March 31, 2006 between the Company and Denis Enberg (Incorporated herein by reference to Exhibit 10.3 of the Company s Current Report on Form 8-K dated April 3, 2006 and filed on April 7, 2006) |
| 10.12 | Securities Purchase Agreement dated June 29, 2006 by and among the Company and the investors named therein (Incorporated herein by reference to Exhibit 10.2 of the Company s Current Report on Form 8-K dated June 29, 2006 and filed on July 6, 2006) |
| 10.13.1 | Employment Agreement dated as of June 30, 2006 between Parke Acquisition, LLC and Daniel Parke (Incorporated herein by reference to Exhibit 10.3 of the Company s Current Report on Form 8-K dated June 29, 2006 and filed on July 6, 2006) |
| 10.13.2 | Amendment to Employment Agreement dated October 1, 2007 between Parke Acquisition, LLC and Daniel W. Parke. (Incorporated herein by reference to Exhibit 10.2 of the Company s Current Report on Form 8-K dated October 1, 2007 and filed on October 2, 2007) |
| 10.14 | Non-Competition Agreement dated as of June 30, 2006 by and among the Company, Parke Acquisition, LLC and Daniel Parke (Incorporated herein by reference to Exhibit 10.4 of the Company s Current Report on Form 8-K dated June 29, 2006 and filed on July 6, 2006) |
| 10.15 | First Amendment to Commercial Lease Agreement dated June 30, 2006 by and between M&D Investments and Parke Industries, LLC (Incorporated herein by reference to Exhibit 10.6 of the Company s Current Report on Form 8-K dated June 29, 2006 and filed on July 6, 2006) |
| 10.16.1 | Employment Agreement, dated as of August 9, 2006, between the Company and Jeffrey Mistarz (Incorporated herein by reference to Exhibit 10.3 of the Company s Current Report on Form 8-K dated August 15, 2006 and filed on August 18, 2006) |
| 10.16.2 | Amendment to Employment Agreement dated October 1, 2007 between Lime Energy Co. and Jeffrey R. Mistarz. (Incorporated herein by reference to Exhibit 10.3 of the Company s Current Report on Form 8-K dated October 1, 2007 and filed on October 2, 2007) |
| 10.17 | |

| | |
|---|---|
| | Agreement with The Parke Family Trust dated February 1, 2007 (Incorporated herein by reference to Exhibit 10.1 of the Company s Current Report on Form 8-K dated January 24, 2007 and filed on February 21, 2007) |
| 10.18 | Agreement with the PIPE Transaction investors dated February 1, 2007 (Incorporated herein by reference to Exhibit 10.2 of the Company s Current Report on Form 8-K dated January 24, 2007 and filed on February 21, 2007) |
| 10.19.1 | Agreement with David Asplund dated November 3, 2006 (Incorporated herein by reference to Exhibit 10.3 of the Company s Current Report on Form 8-K dated January 24, 2007 and filed on February 21, 2007) |

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| Exhibit Number | Description of Exhibit |
|---|---|
| 10.19.2 | Second Amendment to Employment Agreement dated October 1, 2007 between Lime Energy Co. and David R. Asplund. (Incorporated herein by reference to Exhibit 10.1 of the Company s Current Report on Form 8-K dated October 1, 2007 and filed on October 2, 2007) |
| 10.20 | Agreement with Richard Kiphart dated November 2, 2006 (Incorporated herein by reference to Exhibit 10.4 of the Company s Current Report on Form 8-K dated January 24, 2007 and filed on February 21, 2007) |
| 10.21 | Agreement with David Valentine dated November 2, 2006 (Incorporated herein by reference to Exhibit 10.5 of the Company s Current Report on Form 8-K dated January 24, 2007 and filed on February 21, 2007) |
| 10.22 | Loan Agreement between the Company and various lenders, including Richard P. Kiphart, dated May 29, 2007 (Incorporated herein by reference to Exhibit 10.1 of the Company s Current Report on Form 8-K dated May 29, 2007 and filed on May 30, 2007) |
| 10.23 | Investor Rights Agreement between the Company and various investors, including Richard P. Kiphart, dated May 29, 2007 (Incorporated herein by reference to Exhibit 10.2 of the Company s Current Report on Form 8-K dated May 29, 2007 and filed on May 30, 2007) |
| 10.24 | Fifth Modification to Mortgage, Assignment of Rents and Security Agreement dated December 17, 2007 by the Company and American Chartered Bank (Incorporated herein by reference to Exhibit 10.1 of the Company s Current Report on Form 8-K dated December 17, 2007 and filed on December 18, 2007) |
| 10.25 | Third Amended and Restated Mortgage Note dated December 17, 2007, by and among American Chartered Bank and the Company (Incorporated herein by reference to Exhibit 10.2 of the Company s Current Report on Form 8-K dated December 17, 2007 and filed on December 18, 2007) |
| 10.26 | Revolving Line of Credit Note dated March 12, 2008 by and among the Company and Advanced Biotherapy, Inc. and Richard P. Kiphart (Incorporated herein by reference to Exhibit 10.1 of the Company s Current Report on Form 8-K/A dated March 12, 2008 and filed on March 14, 2008) |
| 10.27 | Note Issuance Agreement dated March 12, 2008 by and among the Company and Advanced Biotherapy, Inc. and Richard P. Kiphart (Incorporated herein by reference to Exhibit 10.2 of the Company s Current Report on Form 8-K/A dated March 12, 2008 and filed on March 14, 2008) |
| 14.1 | Code of Ethics For Chief Executive Officer and Chief Financial Officer of the Company (Incorporated herein by reference to Exhibit 14 of the Company s Annual Report on Form 10-KSB for the year ended December 31, 2003 and filed on March 29, 2004) |
| 14.2 | Code of Business Conduct and Ethics (All Officers, Directors and Employees) (Incorporated herein by reference to Exhibit 14.2 of the Company s Annual Report on Form 10-K for the year ended December 31, 2005 and filed March 21, 2006) |

| | |
|---|---|
| 21* | List of subsidiaries |
| 23.1* | Consent of BDO Seidman LLP |

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## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

By: /s/ David R. Asplund

David R. Asplund
Chief Executive Officer
March 31, 2008

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

| Signature | Title | Date |
|---|---|---|
| /s/ David Asplund<br>David Asplund | Chief Executive Officer & Director | March 31, 2008 |
| /s/ Daniel Parke<br>Daniel Parke | President, Chief Operating Officer & Director | March 31, 2008 |
| /s/ Jeffrey Mistarz<br>Jeffrey Mistarz | Chief Financial Officer & Treasurer | March 31, 2008 |
| /s/ Richard Kiphart<br>Richard Kiphart | Chairman of the Board | March 31, 2008 |
| /s/ Gregory Barnum<br>Gregory Barnum | Director | March 31, 2008 |
| /s/ William Carey<br>William Carey | Director | March 31, 2008 |
| /s/ Joseph Desmond<br>Joseph Desmond | Director | March 31, 2008 |
| /s/ David Valentine<br>David Valentine | Director | March 31, 2008 |

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**Report of Independent Registered Public Accounting Firm**

Lime Energy Co.
Elk Grove Village, Illinois

We have audited the accompanying consolidated balance sheets of Lime Energy Co. as of December 31, 2007 and 2006, and the related consolidated statements of operations, stockholders equity and cash flows for each of the three years in the period ended December 31, 2007. We have also audited the schedule in the accompanying index. These financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and schedule are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and schedule, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and schedule. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lime Energy Co. at December 31, 2007 and 2006, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the schedule presents fairly, in all material respects, the information set forth therein.

As discussed in Note 3 to the consolidated financial statements, effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123R, Share- Based Payments using the modified prospective transition method.

Chicago, Illinois /s/ BDO SEIDMAN, LLP
March 28, 2008

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**Lime Energy Co.**
**Consolidated Balance Sheets**

| *December 31,* | 2007 | 2006 |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Cash and cash equivalents | $ 4,780,701 | $ 4,663,618 |
| Accounts receivable, less allowance for doubtful accounts of $151,000 and $366,000 at December 31, 2007 and 2006, respectively | 6,382,060 | 2,825,947 |
| Inventories (Note 6) | 693,227 | 614,491 |
| Advances to suppliers | 374,713 | 132,083 |
| Costs of Uncompleted Contracts in Excess of Related Billings | 952,997 | |
| Prepaid expenses and other | 250,169 | 279,017 |
| **Total Current Assets** | 13,433,867 | 8,515,156 |
| **Net Property and Equipment** (Note 7) | 1,542,327 | 1,201,008 |
| **Long Term Receivables** | 224,568 | 102,904 |
| **Deferred Financing Costs,** net of amortization of $1,687 at December 31, 2007 (Note 12) | 6,885 | |
| **Intangibles,** net of amortization of $3,693,648 and $1,681,771 at December 31, 2007 and 2006, respectively (Notes 4 and 8) | 3,979,052 | 5,126,829 |
| **Cost in Excess of Assets Acquired** | 6,757,133 | 10,450,968 |
| | $ 25,943,832 | $ 25,396,865 |

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**Lime Energy Co.**
**Consolidated Balance Sheets**

| *December 31,* | **2007** | **2006** |
|---|---|---|
| **Liabilities and Stockholders Equity** | | |
| **Current Liabilities** | | |
| Notes payable (Note 14) | **150,000** | **150,000** |
| Current maturities of long-term debt (Note 15) | **81,954** | **46,699** |
| Accounts payable | **3,092,226** | **1,344,725** |
| Accrued expenses (Note 9) | **1,571,683** | **1,251,777** |
| Deferred revenue | **1,531,417** | **967,446** |
| Customer deposits | **1,180,834** | **1,148,090** |
| **Total Current Liabilities** | **7,608,114** | **4,908,737** |
| **Deferred Revenue** | **244,792** | **748,980** |
| **Long-Term Debt,** less current maturities net of unamortized discount of $2,412,305 and $0 as of December 31, 2007 and 2006, respectively (Notes 12 and 15) | **3,187,680** | **520,392** |
| **Deferred Tax Liability** | **1,034,000** | **1,034,000** |
| **Total Liabilities** | **12,074,586** | **7,212,109** |
| **Commitments** (Notes 17 and 19) | | |
| **Stockholders Equity** (Notes 20, 21, 22, 23 and 24) | | |
| Common stock, $.0001 par value; 200,000,000 shares authorized, 7,720,269 and 7,112,374 issued as of December 31, 2007 and December 31, 2006, respectively | **773** | **711** |
| Additional paid-in capital | **106,267,336** | **95,030,180** |
| Accumulated deficit | **(92,398,863)** | **(76,846,135)** |
| **Total Stockholders Equity** | **13,869,246** | **18,184,756** |
| | **$ 25,943,832** | **$ 25,396,865** |

*See accompanying notes to consolidated financial statements.*

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**Lime Energy Co.**
**Consolidated Statements of Operations**

| | Year ended December 31, 2007 | Year ended December 31, 2006 | Year ended December 31, 2005 |
|---|---|---|---|
| Revenue | $ 19,481,130 | $ 8,143,624 | $ 3,693,429 |
| Cost of sales (includes reserve for obsolete inventory of $0, $568,558 and $19,232 in the years ended December 31, 2007, 2006 and 2005, respectively) | 15,082,400 | 6,931,294 | 3,691,854 |
| **Gross profit** | 4,398,730 | 1,212,330 | 1,575 |
| Selling, general and administrative (includes share based compensation expense of $3,582,066, $4,519,686 and $0 for the years ended December 31, 2007, 2006 and 2005, respectively) | 13,072,381 | 12,165,700 | 5,363,503 |
| Amortization of intangibles (Note 8) | 2,011,878 | 1,210,006 | 471,765 |
| Impairment loss (Note 3) | 4,181,969 | 1,183,525 | 242,830 |
| **Operating loss** | (14,867,498) | (13,346,901) | (6,076,523) |
| **Other Income (Expense)** | | | |
| Interest income | 266,863 | 194,182 | 58,737 |
| Interest expense (Notes 11, 12, 13, 14 and 15) | (952,093) | (3,273,370) | (602,990) |
| Total other income (expense) | (685,230) | (3,079,188) | (544,253) |
| Loss from continuing operations before discontinued operations | (15,552,728) | (16,426,089) | (6,620,776) |
| **Discontinued Operations:** | | | |
| Loss from operation of discontinued business | | (21,425) | (251,962) |
| **Net Loss** | (15,552,728) | (16,447,514) | (6,872,738) |
| **Preferred Stock Dividends** (Note 23) | | (24,347,725) | (1,851,345) |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Net Loss Available to Common Shareholders** | **$** | **(15,552,728)** | **$** | **(40,795,239)** | **$** | **(8,724,083)** |
| Basic and diluted loss per common share from continuing operations | **$** | **(2.06)** | **$** | **(10.60)** | **$** | **(18.59)** |
| Discontinued operations | | | | **(0.01)** | | **(0.55)** |
| Basic and Diluted Loss Per Common Share | **$** | **(2.06)** | **$** | **(10.61)** | **$** | **(19.14)** |
| Weighted Average Common Shares Outstanding (Note 24) | | **7,541,960** | | **3,844,087** | | **455,809** |

*See accompanying notes to consolidated financial statements.*

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**Lime Energy Co.**
**Consolidated Statements of Stockholders Equity**

| | Common Shares | Common Stock | Series E Preferred Shares | Series E Preferred Stock | Additional Paid-in Capital | Accumulated Deficit | Total Stock-holders Equity |
|---|---|---|---|---|---|---|---|
| **Balance,** December 31, 2004 | **396,311** | **$ 40** | **224,752** | **$ 2,248** | **$ 55,303,866** | **$ (53,525,883)** | **$ 1,780,271** |
| Issuance of common stock (net of offering costs of $211,787) | 59,524 | 6 | | | 5,413,207 | | 5,413,213 |
| Conversion of preferred stock | 2,064 | | (2,167) | (22) | 22 | | |
| Acquisition of Maximum Performance Group, Inc. | 23,735 | 2 | | | 2,691,605 | | 2,691,607 |
| Cumulative dividends on preferred stock | | | | | (1,366,900) | | (1,366,900) |
| Satisfaction of accrued dividends through the issuance of preferred stock | | | 13,669 | 137 | 1,366,763 | | 1,366,900 |
| Warrants issued in connection with convertible debt issuance | | | | | 920,000 | | 920,000 |
| Common stock issued for services received | 2,147 | | | | 125,484 | | 125,484 |