

LIME ENERGY CO.
Form 10-Q
November 14, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2013

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

For the transition period from to

Commission file number 001-16265

LIME ENERGY CO.

(Exact name of registrant as specified in its charter)

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Delaware

36-4197337

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

16810 Kenton Drive, Suite 240, Huntersville, NC 28078

(Address of principal executive offices, including zip code)

(704) 892-4442

(Registrant's telephone number, including area code)

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

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

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

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller reporting company

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

3,593,422 shares of the registrant's common stock, \$.0001 par value per share, were outstanding as of November 12, 2013.

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FORM 10-Q

For The Quarter Ended September 30, 2013

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PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

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

(in thousands)

	September 30, 2013 (unaudited)	December 31, 2012 (1)
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,647	\$ 2,012
Restricted cash	500	500
Accounts receivable, net	9,050	9,564
Inventories	14	17
Costs and estimated earnings in excess of billings on uncompleted contracts	5,083	3,327
Prepaid expenses and other	365	481
Current assets of discontinued operations	3,983	12,005
Total Current Assets	21,642	27,906
Net Property and Equipment	1,630	1,685
Long-Term Receivables	317	214
Deferred Financing Costs, Net		35
Long-term assets of discontinued operations	3,553	9,297
Intangibles, Net		10
Goodwill	6,009	6,009
	\$ 33,151	\$ 45,156

Table of Contents**Lime Energy Co.****Condensed Consolidated Balance Sheets**

(in thousands, except share data)

	September 30, 2013 (unaudited)	December 31, 2012 (1)
Liabilities and Stockholders Equity		
Current Liabilities		
Accounts payable	\$ 12,927	\$ 5,710
Accrued expenses	3,006	2,579
Billings in excess of costs and estimated earnings on uncompleted contracts	665	1,506
Customer deposits	116	41
Current liability to trade creditor	3,484	2,029
Current liabilities of discontinued operations	5,994	15,978
Total Current Liabilities	26,192	27,843
Long-Term Debt		4,748
Long-Term Liability to Trade Creditor	509	3,241
Long-Term Liabilities of Discontinued Operations		5
Total Liabilities	26,701	35,837
Stockholders Equity		
Preferred stock, \$0.01 par value; 2,000,000 authorized 927,992 and 0 issued and outstanding as of September 30, 2013 and December 31, 2012, respectively	9	
Common stock, \$.0001 par value; 50,000,000 shares authorized 3,593,422 and 3,576,855 issued and outstanding as of September 30, 2013 and December 31, 2012, respectively		
Additional paid-in capital	201,122	191,411
Accumulated deficit	(194,681)	(182,092)
Total Stockholders Equity	6,450	9,319
	\$ 33,151	\$ 45,156

See accompanying notes to condensed consolidated financial statements

(1) Derived from audited financial statements in the Company's annual report on Form 10-K for the year ended December 31, 2012

Table of Contents**Lime Energy Co.****Unaudited Condensed Consolidated Statements of Operations****(in thousands, except per share data)****(Unaudited)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenue	\$ 13,354	\$ 8,622	\$ 37,513	\$ 25,173
Cost of sales	9,651	6,978	27,433	19,976
Gross Profit	3,703	1,644	10,080	5,197
Selling, general and administrative	5,697	6,461	17,142	16,432
Amortization of intangibles		6	10	19
Operating loss	(1,994)	(4,823)	(7,072)	(11,254)
Other Income (Expense)				
Interest income	13	23	39	70
Interest expense	(1,530)	(5)	(2,052)	(21)
Total other (expense) income	(1,517)	18	(2,013)	49
Loss from continuing operations	(3,511)	(4,805)	(9,085)	(11,205)
Discontinued Operations:				
Loss from operation of discontinued business	(329)	(1,792)	(3,504)	(4,242)
Net loss	\$ (3,840)	\$ (6,597)	\$ (12,589)	\$ (15,447)
Preferred stock dividend	(22)		(22)	
Net loss available to common	(3,818)	(6,598)	(12,567)	(15,447)
Basic and diluted loss per common share from				
Continuing operations	\$ (0.98)	\$ (1.34)	\$ (2.53)	\$ (3.20)
Discontinued operations	(0.09)	(0.50)	(0.97)	(1.21)
Basic and Diluted Loss Per Common Share	\$ (1.07)	\$ (1.84)	\$ (3.50)	\$ (4.41)
Weighted Average Common Shares Outstanding	3,593	3,578	3,594	3,500

See accompanying notes to condensed consolidated financial statements

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Lime Energy Co.

Unaudited Condensed Consolidated Statement of Stockholders' Equity

(in thousands, unaudited)

	Common Shares	Common Stock	Series A Preferred Shares	Series A Preferred Stock	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders Equity
Balance, December 31, 2012	3,577	\$		\$	\$ 191,411	\$ (182,092)	\$ 9,319
Conversion of subordinated notes			678	7	6,755		6,762
Issuance of series A preferred stock			250	2	2,498		2,500
Issuance costs					(12)		(12)
Preferred stock dividends					(22)		(22)
Shares issued for benefit plans	16						
Share-based compensation					492		492
Net loss						(12,589)	(12,589)
Balance, September 30, 2013	3,593	\$	928	\$ 9	\$ 201,122	\$ (194,681)	\$ 6,450

See accompanying notes to condensed consolidated financial statements.

Table of Contents**Lime Energy Co.****Unaudited Condensed Consolidated Statements of Cash Flows****(in thousands, unaudited)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Cash Flows From Operating Activities				
Loss Before Stock Dividends	\$ (3,840)	\$ (6,597)	\$ (12,589)	\$ (15,447)
Adjustments to reconcile net loss to net cash used in operating activities:				
Provision for bad debt	432	615	773	1,143
Share-based compensation	115	200	492	1,675
Depreciation and amortization	261	468	793	1,388
Asset impairment	27		27	
PIK notes issued for interest	191		575	
Preferred stock dividends	(22)		(22)	
Amortization of deferred financing costs	56	12	108	40
Amortization of original issue discount	1,307		1,439	
Issuance of stock in exchange for services received				20
Loss on disposition of property and equipment	(127)	(2)	(114)	(2)
Changes in assets and liabilities:				
Accounts receivable	(626)	2,558	(362)	12,734
Inventories			3	(11)
Costs and estimated earnings in excess of billings on uncompleted contracts	(32)	(2,029)	(1,756)	(2,658)
Prepaid expenses and other	152	28	116	159
Assets of discontinued operations	107	2,434	1,695	3,031
Accounts payable	2,675	4,133	7,217	1,140
Accrued expenses	181	386	428	(824)
Billings in excess of costs and estimated earnings on uncompleted contracts	(1,150)	(368)	(841)	(3,061)
Other current liabilities	(692)	(62)	(1,202)	(201)
Liabilities of discontinued operations	(681)	(3,573)	(48)	(8,069)
Net cash used in operating activities	(1,666)	(1,797)	(3,268)	(8,943)
Cash Flows From Investing Activities				
Proceeds from sale of ESCO business	128		1,988	
Proceeds from sale of property and equipment	1		1	
Purchases of property and equipment	(150)	(54)	(437)	(787)
Increase in restricted cash				225
Net cash (used in) provided by investing activities	(21)	(54)	1,552	(562)
Cash Flows From Financing Activities				
Payments of long-term debt	(60)	(57)	(137)	(183)
Proceeds from the issuance of preferred stock	2,500		2,500	
Proceeds from issuance of common stock				2,550

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Costs related to stock issuances	(12)	(93)	(12)	(13)
Proceeds from issuance of shares for benefit plans		171		171
Net cash provided by financing activities	2,428	21	2,351	2,525
Net Increase (Decrease) in Cash and Cash Equivalents	741	(1,830)	635	(6,980)
Cash and Cash Equivalents, at beginning of period	1,906	3,140	2,012	8,290
Cash and Cash Equivalents, at end of period	\$ 2,647	\$ 1,310	\$ 2,647	\$ 1,310

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
<u>Supplemental Disclosure of Cash Flow Information:</u>				
<u>Cash paid during the period for interest (in thousands):</u>				
Continuing operations	\$		\$	
Discontinued operations		65	53	151
				202

See accompanying notes to condensed consolidated financial statements.

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Notes to Unaudited Condensed Consolidated Financial Statements

Note 1 Basis of Presentation

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

The *Financial Statements* have been prepared on the going concern basis which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The *Company*'s ability to continue as a going concern is ultimately dependent on its ability to achieve profitability before it exhausts its currently available capital, sheds non-core assets and/or obtains additional funding. The *Company* has decided to focus its resources on its utility business and to reduce overhead costs to the extent possible. Consistent with this strategy, during 2013, it sold its public sector business, its landfill-gas-to-electricity generating facility in Punta Gorda, Florida and its regional service business. It raised \$2.5 million during the third quarter of 2013 through the sale of shares of its preferred stock and management continues to closely monitor and forecast its cash requirements and is prepared to attempt to raise additional capital if they foresee a need to do so to fund day-to-day operations. The *Company* has historically funded its operations through the issuance of additional equity and secured debt. However, there is no assurance that the *Company* will continue to be successful in obtaining additional funding in the future or improve its operating results. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the possible inability of the *Company* to continue as a going concern.

The results of operations for the three-month and nine-month periods ended September 30, 2013 and 2012 are not necessarily indicative of the results to be expected for the full year.

The December 31, 2012 balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP.

For further information, refer to the audited financial statements and the related footnotes included in the Lime Energy Co. Annual Report on Form 10-K for the year ended December 31, 2012.

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Notes to Unaudited Condensed Consolidated Financial Statements

Note 2 - Share-Based Compensation

A committee of the Board of Directors grants stock options and restricted stock under the Company's 2008 Long Term Incentive Plan, as amended (the Plan). All of the options have been granted at a price equal to or greater than the market price of the Company's stock on the date of grant. Substantially all stock option grants outstanding under the Plan vest ratably over three years and expire 10 years from the date of grant. In addition to the Plan, the Company gave employees the right to purchase shares at a discount to the market price under its employee stock purchase plan (ESPP). The ESPP expired on December 31, 2012, but the Company's Board of Directors has authorized management to seek stockholder approval at the Company's November 2013 annual meeting to renew the ESPP for a one year period commencing January 1, 2014.

During the second quarter of 2010, the Company issued options to certain employees that vest upon achievement of certain financial objectives in combination with a minimum market price for its common stock during a five-year period (the Cliff Options). The Company assesses the probability of achieving these objectives at the end of each month and recognizes expense accordingly.

In addition to the Plan and the ESPP, the Board of Directors grants restricted stock to non-employee directors under the Company's 2010 Non-Employee Director Stock Plan (the Directors Plan). Restricted stock granted to date under the Directors Plan vest 50% upon grant and 50% on the first anniversary of the grant date if the director is still serving on the Board of Directors on the vesting date.

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

The following table summarizes the Company's total share-based compensation expense for the three-month and nine-month periods ended September 30, 2013 and 2012:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Stock options	\$ 72	\$ 200	\$ 307	\$ 1,256
Restricted stock	43	60	185	438
Employee Stock Purchase Plan		(60)		(19)

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\$	115	\$	200	\$	492	\$	1,675
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Notes to Unaudited Condensed Consolidated Financial Statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Weighted average fair-value per option granted	\$ 1.98	\$ 11.76	\$ 1.98	\$ 12.39
Significant assumptions (weighted average):				
Risk-free rate	0.02%	0.10%	0.02%	0.03%
Dividend yield	0.00%	0.00%	0.00%	0.00%
Expected volatility	61.80%	68.8%	61.80%	70.6%
Expected life (years)	5.7	6.0	5.7	6.0
Expected turn-over rate	4.80%	4.80%	4.80%	5.20%
Expected exercise multiple	2.20	2.20	2.20	2.20

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

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Notes to Unaudited Condensed Consolidated Financial Statements

Option activity under the Company's stock option plans as of September 30, 2013 and changes during the three-month and nine-month periods then ended are presented below:

	Shares	Exercise Price Per Share	Weighted Average Exercise Price
Outstanding at June 30, 2013	462,126	\$3.64 - \$1,844.85	\$ 36.61
Granted	2,859	\$4.27 - \$4.27	\$ 4.27
Exercised			
Forfeited	(3,103)	\$23.10 - \$786.45	\$ 39.83
Outstanding at September 30, 2013	461,882	\$3.64 - \$1,844.85	\$ 36.65
Options exercisable at September 30, 2013	355,805	\$3.64 - \$1,844.85	\$ 39.49

	Shares	Exercise Price Per Share	Weighted Average Exercise Price
Outstanding at December 31, 2012	508,636	\$3.64 - \$1,844.85	\$ 37.00
Granted	2,859	\$4.27 - \$4.27	\$ 4.27
Exercised			
Forfeited	(49,613)	\$22.82 - \$955.50	\$ 38.31
Outstanding at September 30, 2013	461,882	\$3.64 - \$1,844.85	\$ 36.65
Options exercisable at September 30, 2013	355,805	\$3.64 - \$1,844.85	\$ 39.49

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Notes to Unaudited Condensed Consolidated Financial Statements

The following table summarizes information about stock options outstanding at September 30, 2013:

Exercise Price	Number Outstanding at September 30, 2013	Options Outstanding		Options Exercisable	
		Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at September 30, 2013	Weighted Average Exercise Price
\$3.64 - \$4.00	14,286	9.2 years	\$ 3.64	14,286	\$ 3.64
\$4.01 - \$5.00	2,859	10.0 years	\$ 4.27	0	\$ 0.00
\$5.01 - \$6.00	7,143	8.9 years	\$ 5.25	2,381	\$ 5.25
\$6.01 - \$20.00	0	0.0	\$ 0.00	0	\$ 0.00
\$20.01 - \$50.00	380,274	5.7 years	\$ 32.18	281,818	\$ 33.34
\$50.01 - \$100.00	57,056	3.4 years	\$ 73.47	57,056	\$ 73.47
\$100.01 - \$1,844.85	264	.4 years	\$ 1,509.82	264	\$ 1,509.82
\$3.64 - \$1,844.85	461,882	5.6 years	\$ 36.65	355,805	\$ 39.49

The aggregate intrinsic value of the outstanding options (the difference between the closing stock price on the last trading day of the third quarter of 2013 of \$3.43 per share and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on September 30, 2013 was \$0. The aggregate intrinsic value of exercisable options as of September 30, 2013 was \$0. These amounts will change based on changes in the fair market value of the Company's common stock.

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

As of September 30, 2013	Unrecognized Compensation Expense (in 000)	Weighted Average Remaining Life (in Months)
Stock options	\$ 178	10.2
Restricted stock	\$ 57	3.8

In addition, there was approximately \$784 thousand of unrecognized expense related to the Cliff Options which may be recognized over the next 19 months if vesting requirements are met.

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Notes to Unaudited Condensed Consolidated Financial Statements

Note 3 Recent Accounting Pronouncements

The Company does not believe any recently issued, but not yet effective, accounting standards will have a material effect on the Company's consolidated financial position, results of operations, or cash flows.

Note 4 Earnings Per Share

The Company computes income or loss per share under ACS 260 Earnings Per Share, which requires presentation of two amounts: basic and diluted loss per common share. Basic loss per common share is computed by dividing income or loss available to common stockholders by the number of weighted average common shares outstanding, and includes all common stock issued. Diluted earnings include all common stock equivalents. The Company has not included the outstanding options or warrants as common stock equivalents in the computation of diluted loss per share for the three and nine months ended September 30, 2013 and 2012, because the effect would be anti-dilutive.

The following table sets forth the weighted average shares issuable upon exercise of outstanding options and warrants as of September 30, 2013:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Weighted average shares issuable upon exercise of outstanding options	460,683	619,241	474,533	633,871
Weighted average shares issuable upon exercise of outstanding warrants	710,543	17,564	701,700	18,802
Total	1,171,226	636,805	1,176,233	652,673

Note 5 Revolving Line of Credit

On March 9, 2011, the Company entered into a \$7 million revolving line of credit agreement with American Chartered Bank. Availability under the line of credit was tied to eligible receivables and borrowings were secured by all the Company's assets. Borrowings were to incur interest at the Prime Rate, plus 0.625%, with a minimum rate of 4.675%, and had an unused fee of 0.30% per annum. The line expired on March 9, 2013.

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Notes to Unaudited Condensed Consolidated Financial Statements

Note 6 Term Loan

On November 3, 2011, GES-Port Charlotte, LLC (GES), entered into a Loan Agreement with RBC Bank (USA) (RBC) (RBC was subsequently acquired by PNC Bank) under which GES borrowed \$3.6 million (the Loan Agreement). The Loan Agreement was to mature on, and all outstanding balances were due and payable on, October 31, 2016. The Loan Agreement required the monthly payment of interest and principal based on a 20-year amortization and a mandatory pre-payment at the end of each calendar year, commencing with the calendar year ending December 31, 2012, equal to 50% of GES 's Excess Cash Flow. Excess Cash Flow was defined in the Loan Agreement as EBITDA less cash taxes paid, less Debt Service, and less up to \$10,000 in capital expenditures. Debt Service was defined to equal the sum of (a) the total of principal and interest payments on funded debt (excluding excess cash flow mandatory prepayments), plus (b) any cash dividends or distributions (excluding the permitted distribution of the US Treasury Grant). No Excess Cash Flow payment was due for 2012 or 2013. The loan carried an interest rate equal to 30-day LIBOR plus 500 basis points. As of September 30, 2013 the 30-day LIBOR rate was 0.1806%.

Borrowings pursuant to the Loan Agreement were secured by all of the assets of GES and guaranteed by Lime. The Loan Agreement contained customary events of default, including the failure to make required payments, borrower 's failure to comply with certain covenants or other agreements, borrower 's breach of the representations and covenants contained in the agreement, the filing or attachment of a lien to the collateral, the occurrence of a material adverse change, borrower 's default of other certain indebtedness and certain events of bankruptcy or insolvency. Upon the occurrence and continuation of an event of default, amounts due under the Loan Agreement could have been accelerated.

The Loan Agreement contained a covenant that required GES to maintain a minimum Debt Service Coverage Ratio to 1.35 to 1.0. The Debt Service Ratio is defined as the ratio of (a) EBITDA, less cash taxes and unfunded capital expenditures to (b) Debt Service. As of December 31, 2012, the company was not in compliance with the debt Service Coverage Ratio. On January 4, 2013, PNC notified the Company that the loan was in default as a result of the failure to meet the minimum debt Coverage Ratio, but that it had chosen not to exercise its rights; however, it reserved the right to do so in the future. On July 2, 2013, PNC notified the Company that it was requiring the Company to start paying interest at the default rate of LIBOR plus 9.00% per annum. The Company sold GES on November 1, 2013, and repaid the loan in full.

The Company had entered into an interest rate swap to fix the interest rate on \$1.9 million of the principal amount of the term loan at 6.56% through October 2016. This interest rate swap was being carried at fair-market value on the Company 's books, with changes in value included in interest expense. The mark-to-market value of the swap was a liability of \$43,673 and \$66,000 as of September 30, 2013 and December 31, 2012, respectively. The liability associated with the decline in the fair value has been included in accrued expense. The swap was terminated on November 1, 2013, when the Company paid off the Term Loan.

Note 7 Conversion of Subordinated Debt and Sale of Preferred Stock

On September 23, 2013, the Company entered into a Preferred Stock and Warrant Purchase Agreement (the Purchase Agreement) with a group of investors including Mr. Richard Kiphart, the Company 's Chairman and largest individual stockholder, and Mr. Christopher Capps, a member

of its Board of

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Notes to Unaudited Condensed Consolidated Financial Statements

Directors (collectively with the other investors, the Investors). Pursuant to the terms of the Purchase Agreement, the Investors purchased 927,992 shares of the Company's Series A Preferred Stock (the Preferred Shares) at a price per Preferred Share of \$10.00. The purchase price was paid with (a) \$2,500,000 in cash and (b) the exchange of \$6,779,950 (principal amount and accrued interest) of the Company's Subordinated Secured Convertible Pay-In-Kind Note (the Notes), representing all of the outstanding Notes.

The Preferred Shares are entitled to an accruing dividend of 12.5% per annum of their original issue price (subject to adjustment for stock splits, combinations and similar recapitalizations), payable semi-annually in arrears. Such dividends shall be paid in additional shares of Series A Preferred Stock at the original issue price (subject to adjustment for stock splits, combinations and similar recapitalizations) or, at the sole discretion of the Company's board of directors, in cash.

The Preferred Shares may be converted, at any time following the approval of such conversion by the Company's common stockholders, at the election of the holder of such share, into shares of the Company's common stock at a conversion price equal to \$3.78 per share (the Conversion Price). The Conversion Price shall be proportionately adjusted for stock splits, combinations and similar recapitalizations, and, subject to a floor of \$3.50, shall be adjusted for future issuances of common stock (excluding certain issuances) at a price per share less than the Conversion Price on a broad based, weighted average basis. The Company can require conversion of the Preferred Shares if the weighted average price for the its common stock is at least two hundred percent (200%) of the Conversion Price, or \$7.56, for at least 20 trading days during a 30 trading day period ending within 5 trading days prior to the Company sending a notice of forced conversion to the holders of the Notes.

The Company may redeem all or a portion of the Preferred Shares at its option at any time unless prohibited by Delaware law governing distributions to stockholders. The redemption price for each Preferred Share shall be its original issue price (subject to adjustment for stock splits, combinations and similar recapitalizations) plus any accrued but unpaid dividends multiplied by a factor based on the date of the notice of such redemption is sent to holders of the Preferred Shares. If such notice is sent before the first anniversary of the issuance of the Preferred Shares, the factor shall be 103%, if thereafter but before the second such anniversary, the factor shall be 102%, if thereafter but before the third such anniversary, the factor shall be 101% and thereafter, the factor shall be 100%.

In connection with the entry into the Purchase Agreement, the Company issued the Investors warrants to purchase 264,551 shares of its common stock at \$3.78 per share (the Warrants). These warrants expire on the 5th anniversary of their issuance and contain a cashless-exercise option. The Warrants may not be exercised until the Company's common stockholders approve the exercise of the Warrants.

The Purchase Agreement requires that the Company seek stockholder approval of the conversion of the Preferred Shares and the exercise of the Warrants on or before December 31, 2013. The Company is seeking such approval at its annual meeting of stockholders scheduled for November 21, 2013.

The Company intends to use the cash proceeds from the sale of the Preferred Shares for general corporate purposes.

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Notes to Unaudited Condensed Consolidated Financial Statements

Note 8 Sale of ESCO Business

On February 28, 2013, the Company sold its ESCO business to Powersecure, Inc., a wholly-owned subsidiary of PowerSecure International, Inc. (Powersecure). The ESCO business, which represented the largest portion of the Company's public sector business, designed, installed and maintained energy conservation measures, primarily as a subcontractor to large energy service company providers (ESCOs), for the benefit of public sector, commercial, industrial and institutional customers as end users. The sale was structured as an asset sale. The total purchase price for the assets sold was \$4.0 million in cash, subject to a working capital adjustment, and the assumption of approximately \$9.8 million of liabilities, comprising certain other debts, liabilities and obligations relating to the acquired business and assumed contracts. After application of the working capital adjustment in accordance with the Purchase Agreement, the cash purchase price is approximately \$1.9 million, subject to post-closing confirmation of the working capital adjustment, resulting in an effective purchase price, including the assumption of liabilities, of approximately \$11.7 million. In connection with the acquisition of the ESCO business, PowerSecure assumed certain unfinished contracts and projects in the acquired business, along with the accounts receivables and accounts payables associated with those projects.

During the fourth quarter of 2012, utilizing the purchase price received for the sale of the ESCO business as an indication of its fair market value, the Company determined that its carrying value associated with the business exceeded the fair market value by approximately \$3.2 million. Accordingly, it reduced the carrying value to the fair market value, recording a \$3.2 million impairment loss in the process.

The value of assets and liabilities sold to Powersecure on February 28, 2013, were as follows (in thousands):

As of February 28, 2013

Accounts receivable	\$	4,680
Retention receivable		1,048
Costs and estimated earnings in excess of billings on uncompleted contracts		591
Precontract cost		8
Goodwill		5,337
Total Assets	\$	11,664
Accounts payable	\$	1,226
Accrued expenses		133
Billings in excess of costs and estimated earnings on uncompleted contracts		8,432
Vehicle loans		11
Other liabilities		1
Total Liabilities	\$	9,803

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After adjusting the carrying value of the assets during the fourth quarter of 2012, the net carrying value of the assets and liabilities of the ESCO business was equal to the proceeds received for the sale of the business on February 28, 2013, therefore there was no gain or loss resulting from the sale recorded during the third quarter of 2013. However, the Asset Purchase Agreement provided that within 90 days of the closing the seller provide the buyer a final calculation of the Closing Net Working Capital as of February 28, 2013. To the extent that this calculation showed an increase in the Closing Net Working Capital from the amount estimated on the closing date, the buyer would owe the seller an amount equal to the increase and to the extent the Closing Net Working Capital was less than the amount estimated on the closing date, the seller would owe the buyer an amount equal to the reduction. The calculation of the final Closing Net Working Capital was completed in August 2013 and it was determined that the buyer owed the seller an additional \$128 thousand. This additional consideration has been included in income from discontinued operations during the quarter ended September 30, 2013.

Note 9 Discontinued Operations

As discussed in Note 8, the Company sold the majority of its public sector business on February 28, 2013 to Powersecure. During the third quarter of 2013, the Company's board of directors authorized management to sell or dispose of GES-Port Charlotte, its contract with the Army Corp. of Engineers under the Federal Renewal and Renovation program (the FRR contract), and the regional service business located in Bethlehem, Pennsylvania. These businesses, along with the remaining public sector business, which it is in the process of exiting, and Asset Development business, which the Company shut down at the end of 2012, have all been reported as discontinued operations in the accompanying financial statements.

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The revenue and operating loss related to discontinued operations was as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenue	\$ 1,546	\$ 9,543	\$ 6,018	\$ 40,500
Operating loss (1)	\$ (252)	\$ (1,718)	\$ (3,301)	\$ (4,015)

(1) Excludes interest expense

The assets and liabilities related to discontinued operations were as follows (in thousands):

	September 30, 2013	December 31, 2012
Cash	\$ 31	\$ 380
Accounts Receivable	2,123	10,017
Costs and estimated earnings in excess of billings on uncompleted contracts	1,814	1,567
Prepaid expenses and other	15	41
Total current assets	3,983	12,005
Deferred financing costs	154	229
Net Property and Equipment, net	3,399	3,731
Goodwill		5,337
Intangible assets		
Total long-term assets	3,553	9,297
Total Assets	\$ 7,536	\$ 21,302
Current portion of long-term debt	3,270	3,413
Accounts Payable	1,289	1,568
Accrued Expense	1,078	3,447
Billings in excess of costs and estimated earnings on uncompleted contracts	357	7,550
Total current liabilities	5,994	15,978
Long-Term Debt, less current portion		5

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Total Liabilities	\$	5,994	\$	15,983
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Lime Energy Co.

Notes to Unaudited Condensed Consolidated Financial Statements

Note 10 Business Segment Information

With the sale of the public sector business and renewable energy business during 2013, all of the Company's remaining operations are focused on one business segment, its energy efficiency segment.

Note 11 Other Equity Issuances

During the first quarter of 2013, the Company granted 132,540 shares of restricted stock to five of its outside directors pursuant to the 2010 Non-Employee Directors' Stock Plan as compensation for their service on the Board, of which 13,254 were forfeited when a director resigned from the Board in March 2013. The shares granted under the 2010 Non-Employee Directors' Stock Plan vest 50% upon grant and 50% on the first anniversary of the grant date if the director is still serving on the Company's board of directors on the vesting date.

Note 12 Subsequent Events

Holders of a majority of the Company's outstanding common stock, acting by written consent, approved amending the Company's certificate of incorporation to effect a one-for seven reverse split of the Company's stock in order for the Company to continue to meet the NASDAQ Stock Exchange's requirement that it maintain a \$1.00 minimum closing bid price for continued listing on the exchange. The reverse stock split was effective October 10, 2013. All share amounts presented in these financial statements have been adjusted to reflect the reverse stock split.

On November 1, 2013, Lime Energy Asset Development, LLC (LEAD), a wholly owned subsidiary of the Company, sold 100% of the membership interests in GES-Port Charlotte, LLC (GESPC) to Green Gas Americas, Inc. (Green Gas or the Buyer). GESPC owns and operates the 2.8 MW Zemel Road landfill-gas to electricity generating facility in Punta Gorda, Florida.

The sale was consummated pursuant to a Membership Interest Purchase Agreement (the Purchase Agreement), dated November 1, 2013, by and between LEAD, as the seller, and Green Gas, as the purchaser. The total purchase price paid for the membership interest was \$3.3 million, less: (1) a \$152,300 contribution on the part of the Seller toward the cost of wellfield improvements. The agreement also provides for a 5%, or \$165,000, hold-back of the purchase price (the Hold-Back) to be held in escrow to cover the indemnification obligations of the seller and any additional pre-closing liabilities. The Hold-Back will be reduced by \$60,000 on February 2, 2014; \$40,000 on July 2, 2014; and \$65,000 on November 2, 2014, to the extent it has not been applied by the Buyer to any obligations of the Seller. The Seller also entered into a promissory note (the Seller's Note) for \$3.3 million of which \$330,000 is secured by a lien on the assets of Lime Energy Services Co., a wholly owned subsidiary of Lime's, to further support LEAD's indemnification obligations to the Buyer. The Seller's Note has a term of one year and the Buyer has agreed to subordinate its lien to that of a senior lender to the Company after six months and following the payment of the interconnection costs described below.

As part of the Purchase Agreement, Lime agreed to assume GESPC's obligation to Florida Power and Light (FP&L) for the cost of completing an interconnect between GESPC's facility and the FP&L's

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Notes to Unaudited Condensed Consolidated Financial Statements

transmission system. This obligation totaled \$400,000 as of November 1, 2013, and requires monthly payments of \$50,000 to FP&L.

The Company will recognize a \$27,000 loss on the sale of GESPC. In recognition of this, it reduced the carrying value of GESPC's assets by this amount during the third quarter of 2013, incurring a \$27,000 impairment charge as a result.

Upon the closing of the transaction, Lime repaid in full the PNC Bank term loan it used to fund the construction of the Zemel Road facility. The repayment cures the on-going default under the loan and releases Lime and LEAD from all obligations to the bank.

On November 6, 2013, the Company sold the assets of its regional service business located in Bethlehem, Pennsylvania.

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ITEM 2.

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

You should read the following discussion regarding the Company along with our financial statements and related notes included in this quarterly report. This quarterly report, including the following discussion, contains forward-looking statements that are subject to risks, uncertainties and assumptions. Our actual results, performance and achievements in 2013 and beyond may differ materially from those expressed in, or implied by, these forward-looking statements. See Cautionary Note Regarding Forward-Looking Statements.

Overview

We are a leader in designing and implementing energy efficiency programs that enable our utility clients to reach their underserved markets and achieve their energy reduction goals. Utility-sponsored energy efficiency programs help reduce customer demand for electricity. Using less electricity when demand is high (like on a hot summer day) can mean fewer new power plants and a smaller electric distribution system, which saves money and benefits the environment. We offer utilities energy efficiency program delivery services targeted to their small and medium-sized business customers. Our programs help these businesses use less energy through the upgrade of existing equipment with new, more energy efficient equipment. This service allows the utility to delay investments in transmission and distribution upgrades and new power plants, while at the same time providing benefits to their clients in the form of lower energy bills, improved equipment reliability, reduced maintenance costs and a better overall operating environment.

Our nine energy efficiency programs operate exclusively within the utility sector and our clients include two of the five largest investor-owned utilities in the country. We focus on deploying direct install energy efficiency solutions for small and mid-size commercial and industrial business programs that improve energy efficiency, reduce energy-related expenditures and lessen the impact of energy use on the environment. Currently, these solutions include energy efficient lighting upgrades and energy efficient mechanical upgrades. We also have expertise in water conservation, building controls, refrigeration and facility weatherization. We are prepared to offer these measures should they become eligible within a utility program. Our small business direct install (SBDI) programs provide a cost-effective avenue for our utility clients to offer products and services to a hard-to-reach customer base, while satisfying aggressive state-mandated energy reduction goals. Our direct install model is a turnkey solution under which we contract with our utility clients to design and market their small and mid-size energy efficiency programs within a defined territory, perform the technical audits, sell the solution to the end-use customer and oversee the implementation of the energy efficiency measures. This model makes it easy and affordable for small businesses to upgrade to new, more energy efficient equipment.

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Results of Operations

Revenue

We generate the majority of our revenue from the sale of our services and the products that we purchase and resell to our clients. We charge our utility clients based upon an agreed to rate schedule based on the item installed or the savings generated. A typical project for a small business utility client can take anywhere from a few hours to a few weeks to complete. Our revenues are somewhat seasonal with the strongest sales occurring in the second half of the year.

Gross Profit

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

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

Selling, General and Administrative Expenses

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

- direct labor and commission costs related to our employee sales force;

- costs of our non-production management, supervisory and staff salaries and employee benefits, including the costs of share-based compensation;

- costs related to insurance, travel and entertainment, office supplies and utilities;

- costs related to marketing and advertising our products;

- legal and accounting expenses; and
- costs related to administrative functions that serve to support our existing businesses, as well as to provide the infrastructure for future growth.

Amortization of Intangibles

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

Interest Expense, Net

Net interest expense consists of interest expense net of interest income. Net interest expense represents the interest costs associated with our subordinated convertible term notes (including amortization of the related debt discount and issuance costs). Interest income includes earnings on our invested cash balances and amortization of the discount on our long-term receivables.

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Three months Ended September 30, 2013 Compared to Three months Ended September 30, 2012

Consolidated Results (in thousands)

	Three Months Ended September 30,		Change	
	2013	2012	\$	%
Revenue	\$ 13,354	\$ 8,622	\$ 4,732	54.9%
Cost of sales	9,651	6,978	2,673	38.3%
Gross profit	3,703	1,644	2,059	125.2%
Selling, general and administrative expenses	5,697	6,461	(764)	-11.8%
Amortization of intangibles		6	(6)	-100.0%
Operating loss	(1,994)	(4,823)	2,829	-58.7%
Interest (expense) income, net	(1,517)	18	(1,535)	-8527.8%
Loss from continuing operations	(3,511)	(4,805)	1,294	-26.9%
Loss from operation of discontinued business	(329)	(1,793)	1,464	-81.7%
Net loss	\$ (3,840)	\$ (6,598)	\$ 2,758	-41.8%
Preferred stock dividends	(22)		(22)	100.0%
Net loss available to common stockholders	\$ (3,818)	\$ (6,598)	\$ 2,780	-42.1%

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

	Three Months Ended September 30,	
	2013	2012
Revenue	100.0%	100.0%
Cost of sales	72.3%	80.9%
Gross profit	27.7%	19.1%
Selling, general and administrative expenses	42.7%	74.9%
Amortization of intangibles	0.0%	0.1%
Operating loss	-14.9%	-55.9%
Interest (expense) income, net	-11.4%	0.2%
Loss from continuing operations	-26.3%	-55.7%
Loss from operation of discontinued business	-2.5%	-20.8%

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Net loss	-28.8%	-76.5%
Preferred stock dividends	-0.2%	0.0%
Net loss available to common stockholders	-28.6%	-76.5%

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Revenue. Our consolidated revenue increased \$4.7 million, or 54.9%, to \$13.4 million during the third quarter of 2013, from \$8.6 million during the third quarter of 2012. The increase in revenue was driven primarily by higher revenue from the new utility programs we started within the past twelve months. Most of the programs are now up and running at close to steady state levels, therefore we expect our growth to slow to more modest levels in future periods absent adding additional programs.

Gross Profit. The increase in revenue, in combination with and improved gross profit margin, led to a \$2.1 million, or 125.2%, increase in our gross profit during the third quarter of 2013 when compared to the third quarter of 2012. Our gross profit margin improved from 19.1% during the third quarter of 2012 to 27.7% during the third quarter of 2013. This improvement in our gross profit margin was the result of improved efficiencies in existing programs and higher margin contributions from new programs. We expect our margins will improve modestly in future periods as we continue to improve our operating efficiencies.

Selling, General and Administrative Expenses. Our selling, general and administrative expenses declined \$764 thousand, or 11.8%, to \$5.7 million during the three-month period ended September 30, 2013, when compared to the \$6.5 million of expense for same period in 2012. Costs related to the restatement we completed in July 2013, and the ongoing stockholder lawsuits, totaled \$657 thousand during the current quarter, which was \$841 thousand lower than the \$1.5 million incurred during the third quarter of 2012. When adjusted for these charges, our SG&A expense increased \$77 thousand, or 1.6%, to \$5.1 million during the third quarter of 2013 from \$5.0 million during the year earlier period. Utility program related SG&A expense increased approximately \$245 thousand due to new programs started within the past 12 months. This was largely offset by reductions in overhead-related SG&A expense. We expect our restatement and lawsuit related expenses to decline and other overhead costs to remain relatively unchanged during the fourth quarter of this year.

Amortization of Intangibles. Intangible assets associated with the continuing business became fully amortized during the second quarter of 2013; as a result there was no amortization expense for the third quarter of 2013. Amortization expense for the third quarter of 2012 totaled \$6 thousand.

Interest Expense, Net. Net interest expense increased \$1.5 million, to \$1.5 million of expense during the third quarter of 2013, compared to \$18 thousand of income during the third quarter of 2012. The components of interest expense for the three-month periods ended September 30, 2013 and 2012 are as follows (in thousands):

Three months ended September 30,	2013	2012
Line of credit	\$	\$ 5
Subordinated notes	191	
Total contractual interest	191	5
Amortization of deferred issuance costs	32	
Amortization of debt discount	1,307	
Total interest expense	\$ 1,530	\$ 5

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Total contractual interest and fees (the interest and fees on outstanding debt) increased \$186 thousand, to \$191 thousand during the third quarter of 2013, from \$5 thousand during the third quarter of 2012. Interest expense associated with the subordinated notes, which we issued in October 2012, was responsible for all of the increase in our interest expense relative to 2012. Our line of credit expired in March 2013, leading to a \$5 thousand decline in expense associated with this obligation when compared to the year earlier period.

We deferred certain costs associated with the issuance of the subordinated convertible notes. These costs were being amortized over the term of the associated debt. In addition, when recording the sale of the notes, we allocated the value of the proceeds to the notes and warrants based on their relative fair values. In doing so, we determined that the notes contained a beneficial conversion feature since the value of the common stock into which the notes were convertible exceeded the value we allocated to the notes. The value of the warrants and the beneficial conversion feature were recorded as a discount to the notes. This discount was being amortized over the term of the notes using the effective interest method. In September 2013, the notes converted to preferred stock, at which time we expensed the unamortized deferred issuance costs and debt discount.

Our interest income declined \$10 thousand to \$13 thousand during the third quarter of 2013, from \$23 thousand during the same period in 2012. Substantially all of the interest income during both periods represented amortization of the discount on our long-term receivables. The decline in amortization was due to a reduction in our long-term receivables, which had historically been related to our C&I customers. We expect our long-term receivable balances to increase in the future due to increased use of extended payment terms by customers under some of our utility programs.

Preferred Stock Dividends

During the third quarter of 2013 we accrued \$22 thousand of dividend expense on the preferred stock issued in September 2013 upon the conversion of the subordinated notes. There was no preferred stock outstanding prior to this conversion and therefore there was no dividend expense prior to the third quarter of 2013.

Table of Contents**Nine Months Ended September 30, 2013 Compared to Nine Months Ended September 30, 2012***Consolidated Results (in thousands)*

	Nine Months Ended September 30,		Change	
	2013	2012	\$	%
Revenue	\$ 37,513	\$ 25,173	\$ 12,340	49.0%
Cost of sales	27,433	19,976	7,457	37.3%
Gross profit	10,080	5,197	4,883	94.0%
Selling, general and administrative expenses	17,142	16,432	710	4.3%
Amortization of intangibles	10	19	(9)	-47.4%
Operating loss	(7,072)	(11,254)	4,182	-37.2%
Interest (expense) income, net	(2,013)	49	(2,062)	-4208.2%
Loss from continuing operations	(9,085)	(11,205)	2,120	-18.9%
Loss from operation of discontinued business	(3,504)	(4,242)	738	-17.4%
Net loss	\$ (12,589)	\$ (15,447)	\$ 2,858	-18.5%
Preferred stock dividends	(22)		(22)	100.0%
Net loss available to common stockholders	\$ (12,567)	\$ (15,447)	\$ 2,880	-18.6%

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

	Nine Months Ended September 30,	
	2013	2012
Revenue	100.0%	100.0%
Cost of sales	73.1%	79.4%
Gross profit	26.9%	20.6%
Selling, general and administrative expenses	45.7%	65.3%
Amortization of intangibles	0.0%	0.1%
Operating loss	-18.9%	-44.7%
Interest (expense) income, net	-5.4%	0.2%
Loss from continuing operations	-24.2%	-44.5%
Loss from operation of discontinued business	-9.3%	-16.9%

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Net loss	-33.6%	-61.4%
Preferred stock dividends	-0.1%	0.0%
Net loss available to common stockholders	-33.5%	-61.4%

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Revenue. Our consolidated revenue increased \$12.3 million, or 49.0%, to \$37.5 million during the first nine months of 2013, from \$25.2 million for the first nine months of 2012. Substantially all of this increase was related to new utility programs started during the prior year.

Gross Profit. Our gross profit for the nine-month period ended September 30, 2013 increased \$4.9 million, or 94.0%, to \$10.1 million, from \$5.2 million earned during the same period in 2012. This increase was the result of increased revenue and improved gross profit margin. Our gross profit margin increased from 20.6% during the first nine months of 2012 to 26.9% during the first nine months of 2013. This improvement in our gross margin was the result of improved efficiencies in our existing programs and higher average margins earned from our newer programs.

Selling, General and Administrative Expenses. Our selling, general and administrative expenses increased \$710 thousand, or 4.3%, to \$17.1 million during the nine-month period ended September 30, 2013, from \$16.4 million for same period during 2012. Costs related to the restatement and stockholder lawsuits totaled \$2.9 million during the first three quarters of 2013, an increase of \$1.4 million over the \$1.5 million incurred during the first three quarters of 2012. SG&A expense, excluding these charges, declined \$665 thousand, or 4.5%, to \$14.3 million during the 2013 period, from \$14.9 million during the first nine months of 2012. Utility program-related SG&A expense increased approximately \$1.2 million during the first nine months of 2013, when compared to the year-earlier period, as the result of the start up of new programs. This increase was more than offset by reductions in overhead related SG&A expense.

Amortization of Intangibles. Amortization expense declined \$9 thousand, to \$10 thousand, during the nine-month period ended September 30, 2013 from \$19 thousand during the same period in 2012. This decline was due to our remaining intangible assets becoming fully amortized during the third quarter of 2013.

Interest Expense, Net. Net interest expense increased \$2.1 million, to \$2 million of expense during the first nine months of 2013, from \$49 thousand of income earned during the first half of 2012. The components of interest expense for the nine-month periods ended September 30, 2013 and 2012 are as follows (in thousands):

Nine months ended September 30,	2013	2012
Line of credit	\$ 3	\$ 21
Subordinated notes	575	
Total contractual interest	578	21
Amortization of deferred issuance costs	35	
Amortization of debt discount	1,439	
Total interest expense	\$ 2,052	\$ 21

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Total contractual interest and fees (the interest and fees on outstanding debt) increased \$557 thousand, to \$578 thousand, during the nine-month period ended September 30, 2013, from \$21 thousand during the same period in 2012. Interest expense associated with the subordinated notes issued in October 2012 was responsible for all of the increase in our interest expense relative to 2012. Expense related to our line of credit, which expired in March 2013, declined from \$21 thousand to \$3 thousand.

We deferred certain costs associated with the issuance of the subordinated convertible notes. These costs were being amortized over the term of the associated debt. In addition, in recording the sale of the notes, we allocated the value of the proceeds to the notes and warrants based on their relative fair values. In doing so, we determined that the notes contained a beneficial conversion feature since the value of the common stock into which the notes were convertible exceeded the value we allocated to the notes. The value of the warrants and the beneficial conversion feature were recorded as a discount to the notes. This discount was being amortized over the term of the notes using the effective interest method. In September 2013, the notes converted to preferred stock, at which time we expensed the unamortized deferred issuance costs and debt discount.

A decline in the amortization of the discount on our long-term receivables led to a \$31 thousand decline in interest income during the first nine months of 2013, to \$39 thousand from \$70 thousand earned during the year-earlier period. The decline in amortization was due to a reduction in our long-term receivables, which had historically been used by our C&I customers. We expect our long-term receivable balances to increase in the future due to increased use of extended payment terms by customers under some of our utility programs.

Preferred Stock Dividends

During the first nine months of 2013, we accrued \$22 thousand of dividend expense associated with the preferred stock issued upon the conversion of the subordinated notes in September 2013. There was no preferred stock outstanding prior to this conversion and therefore there was no dividend expense during 2012.

Liquidity and Capital Resources

As of September 30, 2013, we had cash and cash equivalents of \$3.1 million (including restricted cash of \$500 thousand), compared to \$2.9 million (including \$500 thousand of restricted cash) as of December 31, 2012. Our debt obligations as of September 30, 2013 consisted of a term loan of \$3.3 million used to fund the construction of the Zemel Road generating facility. We sold this facility on November 1, 2013 and used the proceeds to pay off the term loan. The note and results from the operation of Zemel are included in discontinued operations in the accompanying financial statements.

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

Table of Contents**Three months Ended September 30, 2013 Compared to Three months Ended September 30, 2012**

The following table summarizes, for the periods indicated, selected items in our consolidated statements of cash flows (in thousands):

Three months ended September 30,	2013	2012
Net cash used in operating activities	\$ (1,666)	\$ (1,797)
Net cash used in investing activities	(21)	(54)
Net cash provided by financing activities	2,428	21
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 741	\$ (1,830)
Cash and Cash Equivalents, at beginning of period	1,906	3,140
Cash and Cash Equivalents, at end of period	\$ 2,647	\$ 1,310

Net unrestricted cash increased \$741 thousand during the three-month period ended September 30, 2013 as compared to decreasing \$1.8 million during the same period in 2012.

Operating Activities

Operating activities consumed cash of \$1.7 million during the three-month period ended September 30, 2013 as compared to consuming cash of \$1.8 million during the same period of 2012.

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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, our management splits the cash used or provided by operating activities into two pieces: the cash consumed or generated by operating activities before changes in assets and liabilities; and the cash consumed or generated from changes in assets and liabilities. By splitting the cash used or provided by operating activities this way our management believes it is easier to understand how much of our operating cash flow is the result of the Company's current period cash earnings or loss and how much of our operating cash flow is due to changes in working capital. These two measures are calculated as follows (in thousands):

Three Months Ended September 30,	Three Months Ended September 30,	
	2013	2012
Loss Before Stock Dividends	\$ (3,840)	\$ (6,597)
Provision for bad debt	432	615
Share-based compensation	115	200
Depreciation and amortization	261	468
Asset impairment	27	
PIK notes issued for interest	191	
Preferred stock dividends	(22)	
Amortization of deferred financing costs	56	12
Amortization of original issue discount	1,307	
Issuance of stock in exchange for services received		
Loss on disposition of property and equipment	(127)	(2)
Cash consumed by operating activities before changes in assets and liabilities	\$ (1,600)	\$ (5,304)
Changes in assets and liabilities, net of business acquisitions and dispositions:		
Accounts receivable	\$ (626)	\$ 2,558
Inventories		
Costs and estimated earnings in excess of billings on uncompleted contracts	(32)	(2,029)
Prepaid and other	152	28
Assets of discontinued operations	107	2,434
Accounts payable	2,675	4,133
Accrued expenses	181	386
Billings in excess of costs and estimated earnings on uncompleted contracts	(1,150)	(368)
Other current liabilities	(692)	(62)
Liabilities of discontinued operations	(681)	(3,573)
Cash (consumed) generated by changes in assets and liabilities	\$ (66)	\$ 3,507

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The reconciliation to net cash used in operating activities as reported on our Consolidated Statement of Cash Flows is as follows (in thousands):

Three Months Ended September 30,	Three Months Ended September 30,	
	2013	2012
Cash consumed by operating activities before changes in assets and liabilities	\$ (1,600)	\$ (5,304)
Cash generated (consumed) by changes in assets and liabilities	(66)	3,507
Net cash used in operating activities	\$ (1,666)	\$ (1,797)

The cash consumed by operating activities before changes in assets and liabilities declined \$3.7 million or 69.8%, to \$1.6 million, during the third quarter of 2013 as compared to consuming \$5.3 million during the third quarter of 2012. This improvement was the result of a reduction in the cash loss (net income excluding non-cash items) for the quarter resulting from improvements in the gross profit earned, reductions in SG&A expense and a reduction in the loss from discontinued operations. We believe that continued improvements in all these areas and a reduction in the restatement and lawsuit related expenses will lead to continued improvements in this measure of cash flow in future periods.

Changes in assets and liabilities consumed cash of approximately \$66 thousand during the third quarter of 2013, compared to generating \$3.5 million during the third quarter of 2012. Our revenue declined from the second quarter of 2012 to the third quarter of 2012, contributing to a decline in our working capital during the third quarter period. Our revenue during the third quarter of 2013 increased from the revenue generated during the second quarter of the year, leading to the increase in cash consumed by changes in current assets and liabilities during the period. We expect to consume modest amounts of cash from changes in working capital related assets and liabilities in future periods if our revenue continues to grow as we believe it will.

Investing Activities

We consumed \$21 thousand of cash in investing activities during the third quarter of 2013, compared to consuming \$54 thousand during the third quarter of 2012. During the 2013 period we made capital expenditures totaling purchased \$150 thousand, most of which was associated with the continued development of the software platform for our utility business. This was partially offset by \$128 thousand we received as a post-closing adjustment on the sale of the ESCO business and \$1 thousand from the sale fixed assets. During the third quarter of 2012, we used \$54 thousand for capital expenditures. We expect to make additional investment in our software platform in future periods as we continue to add to its capabilities in order to increase our operating efficiencies and the value of our programs to our customers.

Financing Activities

During the third quarter of 2013 financing activities generated \$2.4 million of cash, while during the third quarter of 2012 financing activities generated \$21 thousand of cash. During the three-month period ended September 30, 2013, we raised \$2.5 million through the sale of shares of preferred stock. This was partially offset by \$60 thousand of scheduled principal payments on debt and \$12 thousand of costs related to the preferred stock issuance. During the third quarter of 2012, \$171 thousand generated from our employee stock purchase program was partially offset by \$57 thousand of scheduled principal payments on our debt and \$93 thousand of costs related to stock issuances completed during the

second and third quarters of the year.

Table of Contents**Nine Months Ended September 30, 2013 Compared to Nine Months Ended September 30, 2012**

The following table summarizes, for the periods indicated, selected items in our consolidated statements of cash flows (in thousands):

Nine months ended September 30,	2013	2012
Net cash used in operating activities	\$ (3,268)	\$ (8,943)
Net cash provided by (used in) investing activities	1,552	(562)
Net cash provided by financing activities	2,351	2,525
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 635	\$ (6,980)
Cash and Cash Equivalents, at beginning of period	2,012	8,290
Cash and Cash Equivalents, at end of period	\$ 2,647	\$ 1,310

Net unrestricted cash increased \$635 thousand during the nine-month period ended September 30, 2013, as compared to declining \$7.0 million during the nine-month period ended September 30, 2012.

Operating Activities

Operating activities consumed cash of \$3.3 million during the first nine months of 2013, as compared to consuming cash of \$8.9 million during the same period in 2012.

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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, our management splits the cash used or provided by operating activities into two pieces: the cash consumed or generated by operating activities before changes in assets and liabilities; and the cash consumed or generated from changes in assets and liabilities. By splitting the cash used or provided by operating activities this way our management believes it is easier to understand how much of our operating cash flow is the result of the Company's current period cash earnings or loss and how much of our operating cash flow is due to changes in working capital. These two measures are calculated as follows (in thousands):

Nine Months Ended September 30,	Nine Months Ended September 30,	
	2013	2012
Loss Before Stock Dividends	\$ (12,589)	\$ (15,447)
Provision for bad debt	773	1,143
Share-based compensation	492	1,675
Depreciation and amortization	793	1,388
Asset impairment	27	
PIK notes issued for interest	575	
Preferred stock dividends	(22)	
Amortization of deferred financing costs	108	40
Amortization of original issue discount	1,439	
Issuance of stock in exchange for services received		20
Gain on disposition of property and equipment	(114)	(2)
Cash consumed by operating activities before changes in assets and liabilities	\$ (8,518)	\$ (11,183)
Changes in assets and liabilities, net of business acquisitions and dispositions:		
Accounts receivable	\$ (362)	\$ 12,734
Inventories	3	(11)
Costs and estimated earnings in excess of billings on uncompleted contracts	(1,756)	(2,658)
Prepaid and other	116	159
Assets of discontinued operations	1,695	3,031
Accounts payable	7,217	1,140
Accrued expenses	428	(824)
Billings in excess of costs and estimated earnings on uncompleted contracts	(841)	(3,061)
Other current liabilities	(1,202)	(201)
Liabilities of discontinued operations	(48)	(8,069)
Cash generated from changes in assets and liabilities	\$ 5,250	\$ 2,240

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The reconciliation to net cash used in operating activities as reported on our Consolidated Statement of Cash Flows is as follows (in thousands):

Nine Months Ended September 30,	2013	2012
Cash consumed by operating activities before changes in assets and liabilities	\$ (8,518)	\$ (11,183)
Cash generated from changes in assets and liabilities	5,250	2,240
Net cash used in operating activities	\$ (3,268)	\$ (8,943)

The operating activities before changes in assets and liabilities consumed \$8.5 million of cash during the first nine months of 2013, compared to consuming \$11.2 million during the same period in 2012. This improvement was the result of a reduction in the cash loss (net income excluding non-cash items) for the quarter resulting from improvements in the gross profit earned and a reduction in the loss from discontinued operations, partially offset by an increase in SG&A expense resulting from the costs associated with the restatement and stockholder lawsuits.

Changes in assets and liabilities generated cash of approximately \$5.2 million during the first nine months of 2013, compared to generating \$2.2 million during the first nine months of 2012. This improvement was primarily the result of an improvement in our working capital management during the period which benefited from improved payment terms from many of our suppliers.

Investing Activities

Investing activities generated \$1.6 million during the nine months ended September 30, 2013, compared to consuming \$562 thousand during same period last year. In February 2013, we sold our ESCO business, generating \$2.0 million in cash proceeds. This was partially offset by \$437 thousand used for the continued development of our utility business software platform and purchases of office equipment for our new utility programs. During the 2012 period, we used \$787 thousand for software development and equipment purchases for new utility programs, which was partially offset by a \$225 thousand reduction in restricted cash.

Financing Activities

Financing activities generated \$2.4 million of cash during the nine months ended September 30, 2013, compared to generating \$2.5 million of cash during the same period last year. During the third quarter of 2013, we raised \$2.5 million through the sale of preferred stock. This was partially offset by \$137 thousand used for scheduled debt principal payments and \$12 thousand of costs associated with the preferred stock placement. During the first nine months of 2012, we raised \$2.7 million from the sale of shares of our common stock, including \$171 thousand from the sale to employees as part of our Employee Stock Purchase Plan. This was partially offset by scheduled principal payments of \$183 thousand and costs related to the stock offering of \$13 thousand.

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SOURCES OF LIQUIDITY

Our primary sources of liquidity are our available, unrestricted cash reserves.

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, among other things.

We have raised a significant amount of capital since our formation through the issuance of shares of our common and preferred stock and notes, which has allowed us to 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.

We incurred a \$31.8 million loss during all of 2012 and consumed \$13.6 million of cash in operating activities during 2012, as we dealt with the impact on the business of the announcement regarding our discovery of improper revenue recognition, the inability of our Asset Development business to secure the financing required to fund its projects and the start-up of five new utility programs. Late last year our management, in consultation with our Board of Directors, decided that we needed to shed businesses that we could not finance, narrow our focus to our most promising business(es) and reduce overhead costs. Consistent with this strategy, we shut down the Asset Development business, sold the ESCO business, sold GES-Port Charlotte, sold our regional service business and made significant reductions in remaining headcount.

In the future we will be solely focused on our utility business, which has been our fastest growing business for the past three years. It is also a business in which we believe we are the market leader based on the number of programs we manage, and it is a market that we believe has good prospects for future growth. Our FRR contract, which is currently part of our discontinued operations, will either be sold or operated until we have met all our obligations under our current contracts and then be shut down.

We have experienced an improvement in our cash flows as we have begun to implement this strategy, though as a result of our continuing losses we are still consuming cash. If our utility programs continue to grow and mature, and our restatement and lawsuit related costs decline, as we believe they will, we expect our cash flow to turn positive in the near future. Despite the capital we raised through the sale of preferred stock during the third quarter of 2013, our liquidity remains tighter than we would like. While it is possible that our current capital will be sufficient to carry us until we reach profitability, it is also possible that we will need to raise additional capital before our cash flow turns positive and we are able to internally fund our operations. If we do determine it is necessary to raise additional capital there is no assurance we will be able to do so, or it may only be available on terms that are not favorable to the Company and/or our existing shareholders. If we need to raise additional capital and are unable to do so, our future growth and/or profitability could be impaired, possibly jeopardizing our continued operation.

Cautionary Note Regarding Forward-Looking Statements

Our disclosure and analysis in this report, including Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking information within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the

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Securities Exchange Act of 1934, as amended, adopted pursuant to the Private Securities Litigation Reform Act of 1995. Statements that are not purely historical may be forward-looking. You can identify these forward-looking statements by the use of words such as anticipate, believe, estimate, expect, hope, intend,

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may, project, plan, goal, target, should, and similar expressions, including when used in the negative.

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

- Our business model has changed in significant ways several times since our inception in response to a constantly changing and evolving market, including our decision to focus on utility programs, which may make it difficult to evaluate our business and prospects, and may expose us to increased risks and uncertainties;
- we have incurred significant operating losses since inception and may not achieve or sustain profitability in the future;
- we may not be able to raise additional capital to fund future operating losses;
- our independent registered public accountants have issued a going concern opinion raising doubt about our financial viability;
- any award granted the plaintiffs under the current stockholder lawsuits, in combination with the cost of defending against the lawsuits, could exceed the limits of our director's and officer's insurance;
- we have identified a material weakness in our internal control over financial reporting which could, if not remediated, result in additional material misstatements in our financial statements;
- the Securities and Exchange Commission is investigating us and the results of that investigation could have a material adverse effect on our business, results of operations and financial condition;
- our customers and investors may lose confidence in us because of our restatement;
- it is difficult for us to estimate our future quarterly results; and
- we operate in a highly competitive industry and if we are unable to compete successfully our revenue; and profitability will be adversely affected.

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

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

ITEM 3.

Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

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ITEM 4. **Controls and Procedures**

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms, and, include controls and procedures designed to ensure that such information is accumulated and communicated to our management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), as appropriate, to allow timely decisions regarding required disclosure.

We carried out an evaluation, under the supervision and with the participation of our management, including our CEO and CFO, of the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of September 30, 2013. Based upon that evaluation, management concluded that our disclosure controls and procedures were not effective as of as of September 30, 2013 because of the deficiencies in our internal control over financial reporting discussed below.

DEFICIENCIES IN OUR INTERNAL CONTROL OVER FINANCIAL REPORTING

Under the direction of the Audit Committee and with the participation of our senior management, including our Chief Executive Officer and Chief Financial Officer, we carried out an evaluation of the effectiveness of the design and operation of its controls and procedures. Based on this evaluation, we have concluded that due to a material weakness in one of our controls, our controls and procedures were not effective as of September 30, 2013.

We have identified the following deficiencies in our controls:

- We did not have sufficient monitoring controls in place to limit access rights to the database underlying our accounting system.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company s annual or interim financial statements will not be prevented or detected on a timely basis. The control deficiencies identified above should be considered material weaknesses in our internal control over financial reporting.

As set forth below, we have taken the following steps to remediate each of our control deficiencies identified above. Notwithstanding the control deficiencies described above, we have performed additional analyses and other procedures to enable management to conclude that our financial

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statements included in this Form 10-Q fairly present, in all material respects, our financial condition and results of operations as of and for the quarter ended September 30, 2013.

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REMEDIATION

To remediate the control deficiencies identified above, we have taken the following measures to improve internal control over financial reporting:

- We are working with the value added reseller of our accounting system to find a solution that will permit us to continue to build customized SQL queries of the information in our accounting system while assuring the integrity of our accounting data.

Management and our Audit Committee will continue to monitor these remedial measures and the effectiveness of our internal controls and procedures. Other than as described above, there were no changes in our internal controls over financial reporting during the quarter ended September 30, 2013, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Limitations of the Effectiveness of Internal Control

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

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings.

Satterfield v. Lime Energy Co. et al., Case No. 12-cv-5704 (N.D. Ill.): This is a putative class action on behalf of purchasers of our securities between May 14, 2008 and December 27, 2012, inclusive. Following an announcement by us dated July 17, 2012, four separate putative class actions were filed alleging violations of the federal securities laws. The four cases were consolidated. Pursuant to the Private Securities Litigation Reform Act of 1995 (the "PSLRA"), on October 26, 2012, the Court appointed Lead Plaintiffs. Lead Plaintiffs filed a Consolidated Amended Class Action Complaint on January 18, 2013, alleging that Defendants (the Company, John O'Rourke, Jeffrey Mistarz and David Asplund) issued false and misleading statements concerning Lime's revenues during the class period and thereby artificially inflated our stock price. On May 15, 2013, Defendants filed a motion to dismiss, arguing that the Consolidated Amended Class Action Complaint failed to plead facts sufficient to establish a strong inference that the Defendants acted with *scienter* (*i.e.*, either knowingly or recklessly) in connection with any of the alleged misstatements, as required by the PSLRA. Briefing on the motion was completed on October 9, 2013. The Court has not set a hearing date for Defendants' motion to dismiss. The parties participated in mediation on August 8, 2013, and have continued to engage in settlement discussions since that time. On November 12, 2013, the parties informed the Court that they have reached a tentative settlement, but have not yet exchanged draft settlement papers. The Court ordered that the parties submit for preliminary approval of the settlement on January 14, 2014, and set a hearing on the motion for January 28, 2014. The Company believes that any settlement will be covered by insurance.

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Kuberski v. Lime Energy Co. et al., Case No. 12-cv-7993 (N.D. Ill.): This is a putative shareholder derivative action alleging that certain of our officers and directors breached their fiduciary duties to the Company from May 14, 2008 through the present by failing to maintain adequate internal controls and causing the Company to issue false and misleading statements concerning our revenues. An initial derivative complaint was filed on October 5, 2012. A second derivative action was filed on March 5, 2013. The two cases were consolidated and the Court appointed Lead Counsel for the Plaintiffs on April 9, 2013. On May 9, 2013, the Plaintiffs filed a Verified Consolidated Shareholder Derivative Complaint. On June 10, 2013, Defendants filed a motion to dismiss for failure to make a demand on the Board of Directors or to adequately plead why demand should be excused, as required by Rule 23.1 of the Federal Rules of Civil Procedure and Delaware law. Plaintiffs filed a response on July 8, 2013, and Defendants filed their reply on July 22, 2013. The Court has indicated that it will rule by mail on the motion but has not provided an expected date for the ruling.

SEC Investigation. The Securities and Exchange Commission is conducting an investigation of our revenue recognition practices and financial reporting. On September 11, 2012, the Commission issued a subpoena for documents. We are cooperating with the Commission's investigation.

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

None.

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ITEM 6.

Exhibits

3.1 Amended and Restated Certificate of Incorporation

31.1 Certificate of Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certificate of Chief Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of the Chief Executive Officer of the Corporation Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification of the Chief Financial Officer of the Corporation Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

101 The following financial information from Lime Energy Co.'s Quarterly Report on Form 10-Q for the period ended September 30, 2013, filed with the SEC on November 14, 2013, formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Statement of Income for the three and nine-month periods ended September 30, 2013 and 2012, (ii) the Consolidated Balance Sheet at September 30, 2013 and December 31, 2012, (iii) the Consolidated Statement of Cash Flows for the three and nine-month periods ended September 30, 2013 and 2012, and (iv) Notes to Consolidated Financial Statements.*

* Pursuant to Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed to be filed for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be deemed part of a registration statement, prospectus or other document filed under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filings.

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SIGNATURES

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

LIME ENERGY CO.:

Dated: November 14, 2013

By:

/s/ John O Rourke
John O Rourke
President and Chief Executive Officer
(principal executive officer)

Dated: November 14, 2013

By:

/s/ Jeffrey Mistarz
Jeffrey Mistarz
Chief Financial Officer (principal
financial and accounting officer)