

ELECTRIC CITY CORP
Form 10-Q
August 14, 2006

Table of Contents

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

Form 10-Q

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

For the quarterly period ended June 30, 2006

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

**For the transition period from _____ to _____
Commission file number 001-16265**

ELECTRIC CITY CORP.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or
organization)

36-4197337

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

1280 Landmeier Road, Elk Grove Village, Illinois 60007-2410

(Address of principal executive offices)

(847) 437-1666

(Issuer's telephone number)

(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 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 checkmark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer (as defined in Rule 12b-2 of the Act).

Large Accelerated Filer ☐ Accelerated Filer ☐ Non-Accelerated Filer ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

49,286,611 shares of the registrant's common stock, \$.0001 par value per share, were outstanding
as of August 14, 2006.

ELECTRIC CITY CORP.
FORM 10-Q
For The Quarter Ended June 30, 2006
INDEX

	Page Number
<u>Part I Financial Information</u>	
<u>ITEM 1. Financial Statements:</u>	
<u>Condensed Consolidated Balance Sheets June 30, 2006 (unaudited) and December 31, 2005</u>	1
<u>Condensed Consolidated Statement of Operations Three Months Ended June 30, 2006 and 2005 (unaudited)</u>	3
<u>Condensed Consolidated Statement of Operations Six Months Ended June 30, 2006 and 2005 (unaudited)</u>	4
<u>Condensed Consolidated Statement of Stockholders' Equity Six Months Ended June 30, 2006 (unaudited)</u>	5
<u>Condensed Consolidated Statement of Cash Flows Six Months Ended June 30, 2006 and 2005 (unaudited)</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	8
<u>ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	22
<u>ITEM 3. Quantitative and Qualitative Disclosures about Market Risk</u>	31
<u>ITEM 4. Controls and Procedures</u>	31
<u>Part II. Other Information:</u>	
<u>ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	32
<u>ITEM 4. Submission of Matters to a Vote of Security Holders</u>	33
<u>ITEM 6. Exhibits</u>	34
<u>Signatures</u>	34
<u>Certification</u>	
<u>Certification</u>	
<u>Certification</u>	
<u>Certification</u>	

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1. Financial Statements

ELECTRIC CITY CORP.
CONDENSED CONSOLIDATED BALANCE SHEET

	June 30, 2006 (unaudited)	December 31, 2005(1)
Assets		
Current Assets		
Cash and cash equivalents	\$ 9,529,429	\$ 4,229,150
Accounts receivable, net	2,186,467	1,747,019
Inventories	1,426,160	1,457,789
Advances to suppliers	208,919	324,677
Costs and estimated earnings in excess of billings on uncompleted contracts	28,462	28,462
Prepaid expenses and other	230,838	207,480
Total Current Assets	13,610,275	7,994,577
Net Property and Equipment	2,412,799	2,514,196
Deferred Financing Costs, net		299,964
Intangibles, net	4,887,828	1,960,835
Cost in Excess of Assets Acquired	8,689,401	4,329,402
	\$ 29,600,303	\$ 17,098,974

Table of Contents

**ELECTRIC CITY CORP.
CONDENSED CONSOLIDATED BALANCE SHEET**

	June 30, 2006 (unaudited)	December 31, 2005(1)
Liabilities and Stockholders Equity		
Current Liabilities		
Line of credit	\$	\$ 2,000,000
Accounts payable	1,225,798	913,369
Current maturities of long-term debt	561,504	651,313
Accrued expenses	1,239,646	1,228,765
Notes payable	150,000	150,000
Deferred revenue	1,915,615	984,728
Customer deposits	1,319,941	1,419,919
Total Current Liabilities	6,412,504	7,348,094
Deferred Revenue	198,620	1,044,524
Long-Term Debt , less current maturities, net of unamortized discount of \$0 and \$898,409 at June 30, 2006 and December 31, 2005, respectively	35,591	4,328,719
Total Liabilities	6,646,715	12,721,337
Stockholders Equity		
Preferred stock, \$.01 par value; 5,000,000 shares authorized Series E 0 and 236,254 issued and outstanding as of June 30, 2006 and December 31, 2005, respectively (liquidation value of \$0 and \$47,250,800 at June 30, 2006 and December 31, 2005, respectively)		2,363
Common stock, \$.0001 par value; 200,000,000 shares authorized, 49,286,611 and 3,386,465 issued as of June 30, 2006 and December 31, 2005, respectively	4,929	339
Additional paid-in capital	89,963,703	64,773,556
Accumulated deficit	(67,015,044)	(60,398,621)
Total Stockholders Equity	22,953,588	4,377,637
	\$ 29,600,303	\$ 17,098,974

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, 2005*

Table of Contents

ELECTRIC CITY CORP.
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(Unaudited)

<i>Three months ended June 30,</i>	2006	2005
Revenues	\$ 1,334,818	\$ 1,550,089
Expenses		
Cost of sales	973,481	1,445,400
Selling, general and administrative	2,057,257	1,578,315
	3,030,738	3,023,715
Operating loss	(1,695,920)	(1,473,626)
Other Income (Expense)		
Interest income	8,058	18,303
Interest expense	(2,971,956)	(257,200)
Total other expense	(2,963,898)	(238,897)
Loss from continuing operations	(4,659,818)	(1,712,523)
Discontinued Operations		
Loss from discontinued operations		(112,111)
Net Loss	(4,659,818)	(1,824,634)
Plus Preferred Stock Dividends	(23,732,435)	(339,000)
Net Loss Available to Common Shareholders	\$ (28,392,253)	\$ (2,163,634)
Basic and diluted loss per common share from:		
Continuing operations	\$ (6.49)	\$ (0.64)
Discontinued operations		(0.04)
Basic and Diluted Net Loss Per Common Share	\$ (6.49)	\$ (0.68)

Weighted Average Common Shares Outstanding

4,373,236

3,195,194

See accompanying notes to condensed consolidated financial statements

- 3 -

Table of Contents

ELECTRIC CITY CORP.
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(Unaudited)

<i>Six months ended June 30,</i>	2006	2005
Revenues	\$ 2,481,163	\$ 1,800,802
Expenses		
Cost of sales	1,881,883	1,550,371
Selling, general and administrative	3,983,172	2,569,184
	5,865,055	4,119,555
Operating loss	(3,383,892)	(2,318,753)
Other Income (Expense)		
Interest income	28,769	25,287
Interest expense	(3,239,875)	(332,015)
Total other expense	(3,211,106)	(306,728)
Loss from continuing operations	(6,594,998)	(2,625,481)
Discontinued Operations		
(Loss) income from discontinued operations	(21,425)	125,589
Net Loss	(6,616,423)	(2,499,892)
Plus Preferred Stock Dividends	(24,347,725)	(673,800)
Net Loss Available to Common Shareholders	\$ (30,964,148)	\$ (3,173,692)
Basic and diluted loss per common share from:		
Continuing operations	\$ (7.94)	\$ (1.10)
Discontinued operations	(0.01)	0.04
Basic and Diluted Net Loss Per Common Share	\$ (7.95)	\$ (1.06)

Weighted Average Common Shares Outstanding	3,894,505	2,990,951
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See accompanying notes to condensed consolidated financial statements

- 4 -

Table of Contents

ELECTRIC CITY CORP.
STATEMENT OF CONDENSED CONSOLIDATED STOCKHOLDERS' EQUITY
(Unaudited)

	Common Shares (<i>I</i>)	Common Stock (<i>I</i>)	Series E Preferred Shares	Series E Preferred Stock	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
Balance, December 31, 2005	3,386,465	\$ 339	236,254	\$ 2,363	\$ 64,773,556	\$ (60,398,621)	\$ 4,377,637
Conversion of Series E Preferred Stock	21,695,879	2,170	(243,234)	(2,433)	263		
Issuance of common stock (less issuance costs of \$90,079)	17,875,000	1,787			17,783,134		17,784,921
Shares received for sale of Great Lakes Controlled Energy Corporation	(14,194)	(1)			(193,742)		(193,743)
Acquisition of Parke P.A.N.D.A. Corporation	5,000,000	500			4,999,500		5,000,000
Cumulative dividends on preferred stock					(698,000)		(698,000)
Satisfaction of accrued dividends through the issuance of preferred stock			6,980	70	697,930		698,000
Conversion of revolver	950,865	95			951,882		951,977
Beneficial value of adjustment in conversion price of revolver					950,865		950,865
Term loan liquidated damages satisfied through the issuance of common stock	161,096	16			185,244		185,260
Termination of post repayment	231,500	23			266,202		266,225

interest obligation						
Share based						
compensation				246,869		246,869
Net loss for the						
six months ended						
June 30, 2006				(6,616,423)		(6,616,423)
Balance, June 30,						
2006	49,286,611	\$ 4,929	\$	\$ 89,963,703	\$ (67,015,044)	\$ 22,953,588

(1) Adjusted for 1
for 15 reverse
split of common
stock effected on
June 15, 2006

See accompanying notes to condensed consolidated financial statements.

- 5 -

Table of Contents

ELECTRIC CITY CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

<i>Six months ended June 30</i>	2006	2005
Cash Flow from Operating Activities		
Net loss	\$ (6,616,423)	\$ (2,499,892)
Adjustments to reconcile net loss to net cash used in operating activities, net of acquisitions and dispositions		
Depreciation and amortization	406,532	159,500
Warrants issued in exchange for services received		319,800
Liquidated damages satisfied through issuance of common stock	185,260	
Amortization of deferred financing costs	299,964	50,996
Amortization of original issue discount	898,409	25,547
Termination of post repayment interest and interest converted to common stock	274,747	
Beneficial value of revolver adjustment in conversion price	950,865	
Share based compensation	246,869	
Loss on disposal of fixed assets	93,861	
Changes in assets and liabilities, net of acquisitions and dispositions		
Accounts receivable	(23,869)	634,168
Inventories	164,418	(285,318)
Advances to suppliers	115,758	21,276
Other current assets	(30,197)	(189,094)
Accounts payable	178,822	(880,886)
Accrued expenses	(2,513)	(272,545)
Deferred revenue	201,499	(218,480)
Other current liabilities	(100,346)	(78,398)
Net cash used in operating activities	(2,756,344)	(3,213,326)
Cash Flows Used In Investing Activities		
Acquisition (including acquisition costs), net of cash acquired	(2,849,762)	(1,644,419)
Sale of discontinued operations	(83,586)	
Purchase of property and equipment	(12,544)	(201,814)
Net cash used in investing activities	(2,945,892)	(1,846,233)
Cash Flows Provided by Financing Activities		
(Payments) borrowings on lines of credit	(1,456,545)	2,000,000
Payment on long-term debt	(5,325,861)	(212,404)
Proceeds from issuance of common stock	17,875,000	5,625,000
Issuance costs related to stock issuances	(90,079)	(216,787)

Net cash provided by financing activities	11,002,515	7,195,809
Net Increase in Cash and Cash Equivalents	5,300,279	2,136,250
Cash and Cash Equivalents , at beginning of period	4,229,150	1,789,808
Cash and Cash Equivalents , at end of period	\$ 9,529,429	\$ 3,926,058

Supplemental Disclosure of Cash Flow Information

Cash paid during the periods for interest	continuing operations	\$ 370,927	\$ 80,818
Cash paid during the periods for interest	discontinued operations	42	221

- 6 -

Table of Contents

Supplemental Disclosures of Noncash Investing and Financing Activities:

Holders of Series E preferred stock converted 243,234 shares of Series E preferred stock into 21,695,879 shares of the Company's common stock during the six months ended June 30, 2006.

Laurus Master Fund, Ltd. elected to convert \$943,455 outstanding on the Company's line of credit into 943,455 shares of the Company's common stock in June 2006.

On June 30, 2006, the Company purchased Parke P.A.N.D.A. Corporation for \$2,849,762 in cash (net of cash acquired of \$1,710 and including transaction costs of \$131,472), and 5,000,000 shares of Electric City common stock. The related assets and liabilities at the date of acquisition were as follows:

Cash	\$ 1,710
Accounts receivable	710,465
Inventory	142,789
Other current assets	7,088
Property and equipment	79,917
Identifiable intangible assets	3,250,000
Cost in excess of assets acquired	4,533,741
 Total assets acquired	 8,725,710
 Line of credit	 (400,000)
Accounts payable	(338,536)
Accrued expenses	(89,571)
Notes payable	(45,763)
Other current liabilities	(368)
 Total liabilities assumed	 (874,238)
 Net assets acquired	 7,851,472
 Less valuation of shares issued for acquisition	 (5,000,000)
Acquisition costs	(131,472)
 Total cash paid	 \$ 2,720,000

See accompanying notes to condensed consolidated financial statements

- 7 -

Table of Contents

**Electric City Corp.
Notes to Financial Statements**

Note 1 Basis of Presentation

The financial information included herein is unaudited; however, such information reflects all adjustments (consisting solely of normal recurring adjustments), which, in the opinion of management, are necessary for a fair statement of results for the interim periods.

The accompanying consolidated 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 has experienced operating losses and negative cash flow from operations since inception and currently has an accumulated deficit. These factors raise substantial doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is ultimately dependent on its ability to increase sales to a level that will allow it to operate profitably and sustain positive operating cash flows. Management has recently raised additional funds and is continuing to work to improve profitability through efforts to expand its business in both current and new markets. However, there is no assurance that the Company will be successful in improving 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 and six months ended June 30, 2006 and 2005 are not necessarily indicative of the results to be expected for the full year.

For further information, refer to the audited financial statements and the related footnotes included in the Electric City Corp. Annual Report on Form 10-K for the year ended December 31, 2005.

Note 2 Stock-based Compensation

Effective January 1, 2006, the Company adopted SFAS 123(R). This pronouncement requires companies to measure the cost of employee service received in exchange for a shared based award (typically stock options) based on the fair value of the award. The Company has elected to use the modified prospective transition method for stock options granted prior to January 1, 2006, but for which the vesting period is not complete. Under this transition method the Company accounts for such awards on a prospective basis, with expense being recognized in its statement of operations beginning in the first quarter of 2006 and continuing over the remaining requisite service period based on the grant date fair value estimated in accordance with Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS 123). Prior to 2006 the Company accounted for employee stock options using the method of accounting prescribed by Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and the associated interpretations using the intrinsic method. Generally, no expense was recognized related to its stock options under this method because the stock options exercise price were set at the stock's fair market value on the date the options were granted.

Table of Contents

The following table illustrates the effect on the net loss and the net loss per share as if the Company had recognized compensation expense for stock options in accordance with the fair value based recognition provisions of SFAS 123 for periods prior to the adoption of SFAS 123(R):

	Three Months Ended June 30, 2005	Six Months Ended June 30, 2005
Net Loss, as reported	\$ (1,825,000)	\$ (2,500,000)
Deduct: Stock-based employee compensation expense included in reported net loss		
Add: Total stock-based employee compensation expense determined under fair value based method for awards	(345,000)	(504,000)
Net Loss, pro-forma	(2,170,000)	(3,004,000)
Preferred stock dividends	(339,000)	(674,000)
Net Loss Available to Common Shareholders	\$ (2,509,000)	\$ (3,678,000)
Net loss per share:		
Basic and diluted as reported	\$ (0.68)	\$ (1.06)
Basic and diluted pro forma	\$ (0.79)	\$ (1.23)

The fair value of the option awards was estimated using the Black-Scholes option pricing model with the following assumptions:

	Three Months Ended June 30 2006	2005	Six Months Ended June 30 2006	2005
Significant assumptions (weighted average):				
Risk-free rate	4.90%	2.93%	4.47%	2.81%
Dividend yield	0.00%	0.00%	0.00%	0.00%
Expected volatility	85.3%	43.7%	77.7%	44.2%
Expected life (years)	5.2	5.7	5.5	5.7

The risk-free interest rate is based on the U.S. Treasury Bill rates at the time of grant. The dividend 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 historical exercise patterns, which the Company believes were representative of future behavior.

The Company recognized \$102,259 and \$246,869 of share based compensation expense related to stock options during the three month and six month periods ended June 30, 2006, respectively. The Company recognizes compensation expense for stock options on a straight-line basis over the requisite service period, which is generally equal to the vesting period of the option. In calculating the compensation expense the Company has assumed a 15% forfeiture rate based on historical information. The subject stock options expire ten years after the date of grant.

Table of Contents

Option activity under the Company's stock option plans as of June 30, 2006 and changes during the three months then ended are presented below:

		Exercise Price Per Share	Weighted Average Exercise Price
Three months ended June 30, 2006	Shares		