LIME ENERGY CO.
Form POS AM
May 11, 2007

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As filed with the Securities and Exchange Commission on May 11, 2007

Registration No. 333-136992

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Post-Effective Amendment No. 1
to
FORM S-1
REGISTRATION STATEMENT
UNDER THE SECURITIES ACT OF 1933
LIME ENERGY CO.
(Exact Name of Registrant as Specified in its Charter)

Delaware	**3699**	**36-4197337**
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

1280 Landmeier Road, Elk Grove Village, Illinois, 60007, (847) 437-1666
(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant s Principal Executive Offices)
JEFFREY R. MISTARZ
Chief Financial Officer and Treasurer
Lime Energy Co., 1280 Landmeier Road, Elk Grove Village, Illinois, 60007, (847) 437-1666
(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)
Copies to:
Todd Arkebauer
Reed Smith LLP
10 S. Wacker Drive
Chicago, Illinois 60606-7507
(312) 207-1000
Approximate Date of Commencement of Proposed sale to the Public:
From time to time after the effective date of this registration statement.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. þ

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

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THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SECTION 8(A) MAY DETERMINE.

Explanatory Note:

This Registration Statement constitutes the first-post-effective amendment to the Registration Statement under File No. 333-136992 filed on August 30, 2006, registering up to 40,633,588 shares of Lime Energy Co. s common stock. The primary purpose of this post-effective amendment is to include the Registrant s audited financial statements for the fiscal year ended December 31, 2006 and interim financial statements for the three months ended March 31, 2007 into the prospectus forming a part hereof.

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PROSPECTUS
LIME ENERGY CO.
40,633,588 Shares of Common Stock

This prospectus relates to up to 40,633,588 shares of our common stock, par value $0.0001 per share, which may be offered for sale by selling stockholders named in this prospectus. The selling stockholders can sell these shares on any exchange on which the shares are listed, in privately negotiated transactions or by any other legally available means, whenever they decide and at the prices they set. We may issue up to 364,667 of these shares upon exercise of common stock warrants issued by the Company held by the selling stockholders. We will not receive any of the proceeds from the sale of these shares of our common stock, but may receive proceeds from the exercise of any of such warrants.

Our common stock is quoted on the OTC Bulletin Board under the symbol LMEC. On May 7, 2007, the closing sale price for shares of our common stock was $1.05 per share.

Our principal executive office is located at 1280 Landmeier Road, Elk Grove Village, Illinois, 60007. Our telephone number at that address is (847) 437-1666. Our web site is located at http://www.lime-energy.com. The information contained on our web site is not part of this prospectus.

Investing in our common stock involves risks described beginning on page 8.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is May 11, 2007.

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ABOUT THIS PROSPECTUS

This prospectus is a part of a registration statement that we have filed with the Securities and Exchange Commission (SEC or Commission) using a shelf registration process. Under the shelf registration rules, using this prospectus and, if required, one or more prospectus supplements, the selling stockholders may sell from time to time, in one or more offerings, the shares of common stock covered by this prospectus. The shares covered by this prospectus include 40,268,921 outstanding shares of common stock and 364,667 shares of common stock issuable upon the exercise of warrants.

You should rely only on the information provided in this prospectus or any supplement or amendment. We have not authorized anyone else to provide you with additional or different information. You should not assume that the information in this prospectus or any supplement or amendment is accurate as of any date other than the date on the front of this prospectus or any supplement or amendment.

Unless the context otherwise requires, Lime Energy, the Company, we, our, us and similar expressions refers Lime Energy Co. and its subsidiaries, and the term common stock means Lime Energy Co. s common stock, par value $0.0001 per share.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus includes forward-looking statements that reflect our current expectations and projections about our future results, performance, prospects and opportunities. We have tried to identify these forward-looking statements by using words such as may, should, expect, hope, anticipate, believe, intend, plan, estimate and sim These forward-looking statements are based on information currently available to us and are subject to a number of risks, uncertainties and other factors, including the factors set forth under Risk Factors, that could cause our actual results, performance, prospects or opportunities in 2007 and beyond to differ materially from those expressed in, or implied by, these forward-looking statements. These factors include, without limitation, our limited operating history, our history of operating losses, fluctuations in retail electricity rates, our reliance on licensed technologies, customers acceptance of our new and existing products, the risk of increased competition, our ability to successfully integrate acquired businesses, products and technologies, the recent changes in our management, our ability to manage our growth, our possible need for additional financing in the future and the terms and conditions of any financing that might be consummated, the possible volatility of our stock price, the concentration of ownership of our stock and the potential fluctuation in our operating results. Although we believe that the expectations reflected in these forward-looking statements are reasonable and achievable, such statements involve risks and uncertainties and no assurance can be given that the actual results will be consistent with these forward-looking statements. Except as otherwise required by Federal securities laws, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances or any other reason, after the date of this prospectus.

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PROSPECTUS SUMMARY

The following summary is qualified in its entirety by the more detailed information appearing elsewhere in this prospectus.

Our Company

We were organized as Electric City LLC, a Delaware limited liability company, on December 5, 1997. On June 5, 1998 we merged Electric City LLC with and into Electric City Corp., a Delaware corporation. On June 10, 1998, we issued approximately six (6%) percent of our then issued and outstanding common stock to the approximately 330 stockholders of Pice Products Corporation (Pice), an inactive, unaffiliated company with minimal assets, pursuant to the merger of Pice with and into Electric City. This merger facilitated the establishment of a public trading market for our common stock. Trading in our common stock commenced on August 14, 1998 through the OTC Bulletin Board under the trading symbol ECCC . From December 12, 2000 through June 9, 2006, our common stock traded on the American Stock Exchange under the trading symbol ELC . Beginning on June 12, 2006, our common stock began trading once again on the OTC Bulletin Board under the trading symbol ELCY. On September 13, 2006, we changed our name to Lime Energy Co. after merging with a wholly owned subsidiary which was set up solely for the purpose of effecting a name change. On September 22, 2006, our stock began trading on the OTC Bulletin Board under the trading symbol LMEC.

Our Products

We are a developer, manufacturer and integrator of energy saving technologies. Our energy saving products are the eMAC line of HVAC controllers and the EnergySaver system. The EnergySaver reduces energy consumed by lighting, typically by 20% to 30%, with minimal lighting level reduction. This technology has been installed in applications in commercial buildings, factories and office structures, as well as street lighting and parking lot lighting.

On May 3, 2005, we acquired Maximum Performance Group, Inc. (MPG), a technology-based provider of energy and asset management products and services. MPG currently manufactures and markets its eMAC line of controllers for commercial and industrial HVAC and lighting applications. The eMAC line of microprocessor based controllers are used to optimize the performance of HVAC systems and provide continuous monitoring, control and reporting. The eMAC system generally reduces energy consumption by 15% to 20% through the use of intelligent operating algorithms which learn the rate of cooling or heating required to achieve the desired space temperature while optimizing compressor run time within these limits. The eMAC also monitors up to 126 points of system operation. This system information is captured on a real time basis and transmitted via wireless two-way communication to MPG s central eMAC servers where it is analyzed to ensure maximum system reliability. If the system detects a problem in an HVAC unit, the problem can be diagnosed and the appropriate action can be taken to minimize or avoid system downtime. MPG s customers can also remotely control their HVAC equipment and view historical operating information via the Internet using a standard Internet browser.

Effective June 30, 2006, we acquired Parke P.A.N.D.A. Corporation (Parke), an energy services provider specializing in the design, engineering and installation of energy efficient lighting upgrades for commercial and industrial users. We believe that the addition of Parke will broaden the product offering to our existing customers and allow us to sell our technology products to its current and former customers.

Effective September 27, 2006, we acquired Kapadia Consulting, Inc. (Kapadia), an energy engineering firm that specializes in energy conservation and energy management. We believe that the acquisition of Kapadia will further expand our product offering, increase our customer base and brings valuable energy engineering experience to the Company.

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Our EnergySaver product line is manufactured at our facilities in Elk Grove Village, Illinois, with manufacturing and assembly scaled to order demand. Maximum Performance Group has offices in New York City and San Diego, California, but contracts for the manufacturing of its hardware products with third party contract manufacturers. Parke is headquartered in Glendora, California and has offices in Danville and Carmel, California. Kapadia is headquartered in Peekskill, New York and has an office in Ventura, California.

Giorgio Reverberi has patented in the United States and Italy certain technologies underlying the EnergySaver products. We have entered into a license agreement and series of agreements with Mr. Reverberi and our founder, Mr. Joseph Marino, relating to the license of the EnergySaver technology in the United States and certain other markets. We own all the patents and trademarks related to MPG s products.

Due to changes in lighting technology we expect revenue from the EnergySaver system to decline in future periods and the eMAC line of HVAC controllers to become our leading line of technology products.

We are pursuing a multi-channel marketing and sales distribution strategy to bring our energy saving products to market. Our multi-channel approach includes the use of a direct sales force and independent manufacturers representatives and dealers.

Recent Events

AMEX Delisting

On April 21, 2006, we received a notice from the American Stock Exchange informing us that after a review of our most recent Annual Report on Form 10-K it determined that we were not in compliance with Section 1003(a)(iii) of its Company Guide. Section 1003(a)(iii) requires a listed company to maintain shareholder equity of at least $6 million if it has sustained losses from continuing operations and/or new losses in its most recent five fiscal years. On May 22, 2006, we notified the American Stock Exchange of our decision to delist our common stock from the Exchange. On June 12, 2006, our common stock began trading on the OTC Bulletin Board under the ticker symbol ELCC .

Reverse Stock Split

In June 2006, our board of directors approved and we announced a 1 for 15 reverse split of our common stock, effective on June 15, 2006. Our common stock has been trading on this basis since that date. We took such action in order to permit us to raise additional capital, which we did on June 29, 2006. We did not ask our stockholders to approve the Reverse Split in June because we did not believe it was necessary based on the advice of our prior legal counsel. Thereafter, on June 29, 2006, we closed four transactions (the June 29 Transactions) and acquired Kapadia Consulting, Inc., which transactions are described under The PIPE Transaction , Acquisition of Parke P.A.N.D.A Corporation , and Acquisition of Kapadia Consulting, Inc. in the paragraphs below. All of the June 29 Transactions, and the acquisition of Kapadia Consulting, Inc., were premised on the belief of the parties thereto that the 1 for 15 reverse split was completed on June 15, 2006, and all of these transactions valued our common stock at a price of $1 per share. Subsequently, the staff of the Securities and Exchange Commission requested advice as to whether our Certificate of Incorporation should have been amended (which requires stockholder approval) under Delaware law to effect the reverse split. We then engaged Delaware counsel to assist us. We were advised by Delaware counsel that, although our board had approved the reverse split, in the view of Delaware counsel the reverse split would not be effective until it had been set forth in an amendment to our Certificate of Incorporation approved by our stockholders and filed with the Delaware Secretary of State. We completed such actions on January 23, 2007 and the reverse split became effective on that date. As a result of the reverse split, the number of outstanding shares of our common stock was reduced from 97,663,927 shares outstanding immediately prior to filing of the amendment to 6,510,925 shares of common stock immediately after filing the amendment.

However, because the reverse split became effective January 23, 2007 and not on June 15, 2006, the shares of common stock that were issued in the June 29 Transactions and the acquisition of Kapadia Consulting, Inc. were reduced on a 1 for 15 basis when the amendment was filed. Since both we and the other parties to those transactions intended that the shares we issued were post-reverse split shares, following the filing of the amendment and the reverse split becoming effective, we offered to each of the recipients of shares in the June 29 Transactions and the Kapadia acquisition additional shares of common stock so that each would have the specific number of post-reverse split shares of which were intended in those transactions, in satisfaction of any claims such recipients might have in respect of such matter. All of them accepted such offer and we thereupon issued a total of 43,275,686 shares of common stock to such parties, bringing our total outstanding shares of common stock to 53,566,100. The table below shows, for each such party, the number of shares acquired in the June 29 Transactions and the Kapadia acquisition, the effect of the reverse split on those shares, and the number of catch up shares which we have issued to each such party in satisfaction of any claims they might otherwise have:

Stockholder	No. Of Shares Actually Acquired	Number Of Shares Held After Amendment and Reverse-Split	Number Of "Catch Up" Shares Issued
David R. Asplund	1,854,200	123,613	1,730,587
Augustine Fund LP	2,628,000	175,200	2,452,800
Chris Capps	25,000	1,667	23,333
Cinergy Ventures II, LLC	3,002,293	200,153	2,802,140
John Donohue	294,000	19,600	274,400
Gregory Ekizian	400,000	26,667	373,333
Robert L. Gipson	2,363,600	157,573	2,206,027
Thomas Gipson	1,500,000	100,000	1,400,000
Julia Gluck	100,000	6,667	93,333
John Thomas Hurvis Revocable Trust	540,053	36,004	504,049
Rebecca Kiphart	200,000	13,333	186,667
Richard P. Kiphart	14,603,400	973,560	13,629,840
Laurus Master Fund Ltd	1,343,461	89,564	1,253,897
Leaf Mountain	3,315,900	221,060	3,094,840
Martin Mellish	250,000	16,667	233,333
Nikolaos D. Monoyios	2,363,600	157,573	2,206,027
Nettlestone Enterprise Ltd.	1,500,000	100,000	1,400,000
SF Capital Partners	4,237,600	282,507	3,955,093
David W. Valentine	345,700	23,047	322,653
The Parke Family Trust	5,000,000	333,333	4,666,667
Pradeep Kapadia	500,000	33,333	466,667
Total	46,366,807	3,091,121	43,275,686

The PIPE Transaction, Series E Preferred Conversion and Laurus Repayment

On June 29, 2006, we entered into a securities purchase agreement with a group of 17 investors (the PIPE Investors) pursuant to which we issued to such purchasers an aggregate of 17,875,000 shares of our common stock at a price of $1.00 per share for total gross proceeds of $17,875,000 (the PIPE Transaction). Ten of the PIPE Investors, who purchased an aggregate of 13,900,000 shares of common stock in the PIPE Transaction, were holders of Series E Convertible Preferred stock (Series E Preferred), including three members of our board of directors (who, together with members of their families, purchased 7,700,000 shares of common stock in the PIPE Transaction).

Prior to the PIPE Transaction, the Series E Preferred stock was convertible into our common stock at $6.67 per share, after adjustment for the reverse split. However, the Series E Preferred contained anti-dilution provisions which required automatic reduction of the conversion price of the Series E Preferred if we issued stock or securities convertible into common stock at a price below the Series E Preferred conversion price then in effect to the price of the new issuance. Because we issued common stock in the PIPE Transaction at $1.00 per share, the Series E Preferred conversion price was automatically reduced to $1.00 per share.

In connection with the PIPE Transaction, the holders of the Series E Preferred agreed to convert all outstanding shares of Series E Preferred into common stock at the new conversion price on the closing of the PIPE Transaction (the Series E Conversion). As a result, we issued 21,648,346 shares of our common stock upon the conversion of the Series E Preferred on June 29, 2006.

Prior to closing the PIPE Transaction, we owed Laurus Master Fund, Ltd. (Laurus), $943,455 under a revolving convertible loan, $5,038,030 under two convertible term loans, $54,726 in accrued interest and fees and $161,096 in liquidated damages for failing to register common stock with the SEC for resale by Laurus as required in connection with the $5 million term loan which we borrowed from Laurus in November 2005. In connection with the PIPE Transaction Laurus agreed to convert the outstanding balance on the revolving convertible loan and related accrued interest into common stock at $1.00 per share and accept payment of the liquidated damages in shares of our common stock, again valued at $1.00 per share. We used $5,601,418 of the proceeds from the PIPE Transaction to repay the convertible term loans and pay related accrued interest and fees and prepayment penalties thereon, and, we issued 1,111,961 shares of common stock to Laurus upon conversion of the revolving convertible loan and to pay the accrued interest and the liquidated damages. Laurus also agreed, in exchange for 231,500 shares of our common stock, to terminate the requirement that we pay it a portion of the cash flows generated by own two Virtual Negawatt Power Plan (or VNPP) projects as required by the $5 million term loan of November 2005.

We also used $2,720,000 of the proceeds of the PIPE Transaction to fund the cash portion of the purchase price of the Parke acquisition (described below) and $400,000 of such proceeds to repay Parke s revolving line of credit. The remaining proceeds will be used for general corporate purposes. We may also use a portion of the proceeds to selectively acquire businesses, products and/or technologies that are complementary to our own.

A provision of the PIPE Transaction required us to file and have declared effective by November 3, 2006, a registration statement registering the shares issued as part of the PIPE Transaction. To the extent that we failed to have the registration statement declared effective by this date, we were required to pay penalties to the PIPE investors at the rate of 1% per month of the purchase price paid by the investors. Largely as a result of the questions regarding the need to amend our Certificate of Incorporation to effect the June 15, 2006 reverse split of our stock, we were not able to have the registration statement declared effective until February 14, 2007. All of the investors in the PIPE Transaction agreed to accept shares of our common stock, valued at $1.00 per share, as payment of this registration penalty. As a result, during January and February 2007 we issued a total of 613,708 shares of our common stock to the PIPE investors in satisfaction of the penalties owed through February 14, 2007.

Acquisition of Parke P.A.N.D.A. Corporation

On June 29, 2006, we completed the previously announced acquisition of Parke for consideration consisting of $2.72 million in cash and $5 million of our common stock (5,000,000 shares valued at $1.00 per share). The acquisition was effective as of June 30, 2006. As part of the acquisition, we assumed debt of approximately $446,000, $400,000 of which we repaid upon closing. Parke was owned by The Parke Family Trust, whose trustees are Daniel Parke, one of our directors, and his wife Michelle Parke.

Parke (now named Parke Industries, LLC) is an energy services provider specializing in the design, engineering and installation of energy efficient lighting upgrades for commercial and industrial users. Parke has 30 employees and is headquartered in Glendora, California, with offices in Danville and Carmel, California.

Dan Parke, the president and founder of Parke, continues to serve as the President of Parke and, as of June 30, 2006, also assumed the position of President and Chief Operating Officer of Lime Energy.

Name Change to Lime Energy

On September 13, 2006, we changed our name to Lime Energy Co. by merging with a wholly owned subsidiary set up solely for the purpose of effecting the name change. We changed our name because we felt the Lime Energy brand reflects the image that we wish to convey to our customers, shareholders and the broader electricity and energy efficiency industry. Lime is an acronym for Less Is More Efficient, which we feel more accurately describes the green energy efficiency technologies offered by Lime Energy and further positions us as a unique player in the energy market. Because of the change of our name, on September 22, 2006 our ticker symbol changed to LMEC.

Special Committee of the Board of Directors

Due to potential conflicts of interest resulting from (i) certain members of our board of directors beneficially owning Series E shares and being asked to purchase shares of common stock in the PIPE Transaction and concurrently convert their Series E shares into our common stock, and (ii) Dan Parke s ownership interest in Parke P.A.N.D.A. Corporation, our board of directors established a special committee comprised of disinterested, independent directors to review, negotiate and approve the acquisition of Parke and the PIPE Transaction. The special committee retained Rittenhouse Capital Partners, LLC (Rittenhouse) to act as its financial advisor, and legal counsel to assist it in its review of these transactions. Rittenhouse reviewed the Parke acquisition and delivered to the special committee an opinion to the effect that the purchase price paid for Parke was fair to us from a financial point of view. It also provided information, advice and analysis to assist the committee in its review of the structure and pricing of the PIPE Transaction. Legal counsel assisted the special committee in its review of these transactions and advised the committee on its duties and responsibilities. After considering all of the information it had gathered, the committee concluded that these transactions were in the best interests of the Company and its stockholders, and approved the Parke acquisition and the PIPE Transaction.

Acquisition of Kapadia Consulting, Inc.

On September 26, 2006, we acquired Kapadia Consulting, Inc., effective September 27, 2006, for consideration consisting of $1.25 million in cash and 500,000 shares of Lime Energy common stock. Kapadia, which we have renamed Kapadia Energy Services, Inc., is an engineering firm that specializes in energy management consulting and energy efficient lighting upgrades for commercial and industrial users. Kapadia has seven employees, is headquartered in Peekskill, New York and has an office in Ventura, California.

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Amendment to Certificate of Incorporation

As described under Reverse Stock Split above, on January 23, 2007 we filed an amendment to our Certificate of Incorporation to make effective a 1 for 15 reverse split of our common stock on that date. The amendment made no other changes to our capital stock or to any other provisions of our Certificate of Incorporation.

New Director

Effective January 26, 2007, Joseph F. Desmond joined our Board of Directors. See Directors, Executive Officers, Promoters and Control Persons for additional information regarding Mr. Desmond.

Rights Offering

On March 30, 2007 we completed a rights offering to all of our stockholders, except for the former holders of our series E convertible preferred stock and Daniel Parke (who waived their right to participate), raising a total of $2,999,632 through the issuance of 2,999,632 shares of our common stock to 260 of our existing stockholders.

The Restructured Company

After effecting the PIPE Transaction, the rights offering and the Parke and Kapadia acquisitions we have the following:

- Cash of approximately $6 million (as of April 2, 2007);
- No debt, except for the mortgage on our headquarters in the amount of $490,000, a $150,000 demand note owed to one of our stockholders, and various auto loans totaling approximately $71,000 (all balances as of March 31, 2007);
- One class of outstanding equity (common stock), with no outstanding preferred stock or convertible debt;
- Approximately 78 employees;
- Nine sales offices located in New York, Chicago, Salt Lake City, San Diego, Glendora, California, Danville, California, Carmel, California, Ventura, California and Salt Lake City, Utah;
- Proprietary technology that controls and reduces energy consumed in commercial lighting and HVAC applications;
- A business that designs, engineers and installs energy efficient lighting upgrades for commercial and industrial users; and
- A largely revamped board of directors (5 of the 8 directors have joined the Board since October 2005) and senior management team (our CEO and our President both joined the Company in 2006).

We believe that as a result of these recently implemented changes we will be better positioned to take advantage of the growth in demand for energy efficiency products and services, hopefully leading to improved profitability and cash flow. We also believe that there are opportunities for future acquisitions that could broaden our product line, increase our geographic reach and lead us to new markets for our products, all of which we hope would also contribute to increased sales and to profitability.

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The Offering

Securities Offered	The selling stockholders are offering from time to time up to 40,633,588 shares of our common stock.
Terms of the Offering	We have agreed to use our best efforts to keep the registration statement of which this prospectus is a part effective until all the shares of the selling stockholders registered under the registration statement have been sold or may be sold without volume restrictions pursuant to Rule 144(k) under the Securities Act.
Use of Proceeds	We will not receive any of the proceeds from any sale of the shares offered by this prospectus by the selling stockholders. To the extent a selling stockholder exercises its warrant for cash, we intend to use the proceeds we receive from such exercise(s) for general corporate purposes.
OTC Bulletin Board Symbol	LMEC

RISK FACTORS

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

Risks Related to Our Business

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

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

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

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

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

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

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

We have historically derived a significant portion of our annual revenue from a limited number of customers. Seldom has any one customer represented 10% or more of our revenues for more than one year in a row. This requires that we continually replace major customers, whose needs we have satisfied, with one or more new customers. The failure to replace a major customer could have a significant negative effect on our results of operations and financial condition. We believe that as a result of the acquisition of Parke and Kapadia during 2006 we will experience an increased diversification of our customer base, reducing the amount of our revenue associated with several large customers, but this remains to be seen.

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

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

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

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

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

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

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

- further develop and improve our operating, information, accounting, financial and other internal systems and controls on a timely basis;

- improve our business development, marketing and sales capabilities; and

- expand, train, motivate and manage our employee base.

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

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

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

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

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

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

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

Since January 1, 2000, we have acquired five companies; Switchboard Apparatus Inc., Great Lakes Controlled Energy Corporation, Maximum Performance Group, Inc., Parke P.A.N.D.A. Corporation and Kapadia Consulting, Inc., two of which (Switchboard Apparatus and Great Lakes Controlled Energy) we subsequently sold at a loss. Our future growth may depend, in part, upon our ability to successfully identify, acquire and operate other complementary businesses. We may encounter problems associated with such acquisitions, including the following:

- difficulties in integrating acquired operations and products with our existing operations and products;
- difficulties in meeting operating expectations for acquired businesses;
- diversion of management s attention from other business concerns;
- adverse impact on earnings of amortization or write-offs of goodwill and other intangible assets relating to acquisitions; and
- issuances of equity securities that may be dilutive to existing stockholders to pay for acquisitions.

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

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

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

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

We have recently raised additional capital through the issuance of common stock to repay debt, fund an acquisition, grow our product development, marketing and sales activities at the pace that we intend, and to continue to fund operating losses until our cash flow turns positive. We may find it necessary to raise capital again some time in the future. If we raise additional funds in the future through the issuance of equity securities or convertible debt securities, our existing stockholders will likely experience dilution of their present equity ownership position and voting rights. Depending on the number of shares issued and the terms and conditions of the issuance, new equity securities could have rights, preferences, or privileges senior to those of our common stock. Depending on the terms, common stock holders may not have approval rights with respect to such issuances.

Risks Related to this Offering

Due to the current market price of our common stock, in conjunction with the fact that we are a relatively small company with a history of operating losses, the future trading market for our stock may not be active on a consistent basis, which may make it difficult for you to sell your shares.

The trading volume of our stock in the future depends in part on our ability to increase our revenue and reduce or eliminate our operating losses, which should increase the attractiveness of our stock as an investment, thereby leading to a more liquid market for our stock on a consistent basis. If we are unable to achieve these goals, the trading market for our stock may be negatively affected, which may make it difficult for you to sell your shares. In addition, we have recently moved from The American Stock Exchange to the OTC Bulletin Board because we no longer meet AMEX listing criteria. Our move to the OTC Bulletin Board may result in reduced liquidity and increased volatility for our stock. If an active and liquid trading market does not exist for our common stock, you may have difficulty selling your shares.

Due to the move from The American Stock Exchange to the OTC Bulletin Board, holders of our common stock will no longer have certain approval rights available under the AMEX Rules.

The American Stock Exchange has rules which listed companies must comply with. Among other things, the AMEX Rules require shareholder approval as a prerequisite to approving applications to list additional shares to be issued in connection with certain transactions. For example, AMEX Rule 713 requires shareholder approval if a company issues shares equal to or greater than 20% of its currently outstanding shares, if such issuance is at a price below the greater of book or market value of the shares. Although we are subject to the Delaware General Corporation Law, it is less restrictive and does not require stockholder approval of such a transaction. Accordingly, now that our stock is no longer listed on the AMEX, we may issue shares for less than the greater of book or market value and take certain other actions without stockholder approval which we could not have taken without shareholder approval when our common stock was listed on AMEX.

Due to the concentration of holdings of our stock, a limited number of investors may be able to control matters requiring common stockholder approval or could cause our stock price to decline through future sales because they beneficially own a large percentage of our common stock.

There were 53,566,100 shares of our common stock outstanding as of May 8, 2007, of which the PIPE Investors (a total of 17 investors) and The Parke Family Trust beneficially own in the aggregate approximately 90%. As a result of their significant ownership, these investors may have the ability to exercise a controlling influence over our business and corporate actions requiring stockholder approval, including the election of our directors, a sale of substantially all of our assets, a merger between us and another entity or an amendment to our certificate of incorporation. This concentration of ownership could delay, defer or prevent a change of control and could adversely affect the price investors might be willing to pay in the future for shares of our common stock. Also, in the event of a sale of our business, these investors could be able to seek to receive a control premium to the exclusion of other common stockholders.

A significant percentage of the outstanding shares of our common stock, including the shares beneficially owned by these holders, can be sold in the public market from time to time, subject to limitations imposed by Federal securities laws. The market price of our common stock could decline as a result of sales of a large number of our presently outstanding shares of common stock by these investors or other stockholders in the public market or due to the perception that these sales could occur. This could also make it more difficult for us to raise funds through future offerings of our equity securities or for you to sell your shares if you choose to do so.

The large concentration of our shares held by this small group of shareholders could result in increased volatility in our stock price due to the limited number of shares available in the market.

Provisions of our charter and by-laws, in particular our blank check preferred stock, could discourage an acquisition of our company that would benefit our stockholders.

Provisions of our charter and by-laws may make it more difficult for a third party to acquire control of our company, even if a change in control would benefit our stockholders. In particular, shares of our preferred stock may be issued in the future without further stockholder approval and upon those terms and conditions, and having those rights, privileges and preferences, as our Board of Directors may determine. In the past, we have issued preferred stock with dividend and liquidation preferences over our common stock, and with certain approval rights not accorded to our common stock, and which was convertible into shares of our common stock at a price lower than the market price of our common stock. The rights of the holders of our common stock will be subject to, and may be adversely affected by, the rights of the holders of any preferred stock we may issue in the future. The issuance of our preferred stock, while providing desirable flexibility in pursuing possible additional equity financings and other corporate purposes, could have the effect of making it more difficult for a third party to acquire control of us. This could limit the price that certain investors might be willing to pay in the future for shares of our common stock and discourage these investors from acquiring a majority of our common stock. In addition, the price that future investors may be willing to pay for our common stock may be lower due to the conversion price and exercise price granted to investors in any such private financing.

We do not intend to pay dividends on shares of our common stock in the foreseeable future.

We currently expect to retain our future earnings, if any, for use in the operation and expansion of our business. We do not anticipate paying any cash dividends on shares of our common stock in the foreseeable future.

Compliance with changing regulation of corporate governance and public disclosure may result in additional expenses.

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, are creating uncertainty for companies such as ours. We are committed to maintaining high standards of corporate governance and public disclosure. As a result, we intend to invest reasonably necessary resources to comply with evolving standards, and this investment may result in increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities, which could harm our business prospects.

USE OF PROCEEDS

We will not receive any of the proceeds from any sale of the shares offered by this prospectus by the selling stockholders. If and when a selling stockholder exercises its common stock warrants, we may receive up to $3,698,463 from the issuance of shares of common stock to such selling stockholder. The warrants have exercise prices ranging from $1.00 to $47.70 per common share. Some of the warrants contain a cashless exercise option, which permits the holder to surrender a portion of the shares issuable upon exercise of the warrant as payment of the exercise price. To the extent the holder of a warrant elects the cashless exercise option, the cash received by us and the number of shares issued upon exercise of such warrant will be reduced. Any cash received as a result of the exercise of any of the warrants will be used by the Company for general corporate purposes.

PLAN OF DISTRIBUTION

We have agreed to register for public resale shares of our common stock which have been issued to the selling stockholders or may be issued in the future to the selling stockholders upon exercise of the warrants. We have agreed to use our best efforts to keep the registration statement, of which this prospectus is a part, effective until all the shares of the selling stockholders registered hereunder have been sold or may be sold without volume restrictions pursuant to Rule 144(k) under the Securities Act. The aggregate proceeds to the selling stockholders from the sale of shares offered pursuant to this prospectus will be the prices at which such securities are sold, less any commissions. The selling stockholders may choose not to sell any or all of the shares of our common stock offered pursuant to this prospectus.

The selling stockholders may, from time to time, sell all or a portion of the shares of our common stock at fixed prices, at market prices prevailing at the time of sale, at prices related to such market prices or at negotiated prices. The selling stockholders may offer their shares of our common stock at various times in one or more of the following transactions:

- on any securities exchange, market or trading facility on which our common stock may be listed at the time of sale;
- in an over-the-counter market in which the shares are traded;
- through block trades in which the broker or dealer so engaged will attempt to sell the shares as agent, but may purchase and resell a portion of the block as principal to facilitate the transaction;
- through purchases by a broker or dealer as principal and resale by such broker or dealer for its account pursuant to this prospectus;
- in ordinary brokerage transactions and transactions in which the broker solicits purchasers;
- through options, swaps or derivatives;
- in privately negotiated transactions;
- in transactions to cover short sales;
- through a combination of any such methods of sale; and .
- through any other method permitted by law.

The selling stockholders may also sell their shares of our common stock in accordance with Rule 144 under the Securities Act, rather than pursuant to this prospectus. The selling stockholders shall have the sole and absolute discretion not to accept any purchase offer or make any sale of shares if they deem the purchase price to be unsatisfactory at any particular time.

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The selling stockholders may sell their shares of our common stock directly to purchasers or may use brokers, dealers, underwriters or agents to sell such shares. In effecting sales, brokers and dealers engaged by the selling stockholders may arrange for other brokers or dealers to participate. Brokers or dealers may receive commissions, discounts or concessions from a selling stockholder or, if any such broker-dealer acts as agent for the purchaser of such shares, from a purchaser, in amounts to be negotiated. Such compensation may, but is not expected to, exceed that which is customary for the types of transactions involved. Broker-dealers may agree with a selling stockholder to sell a specified number of such shares at a stipulated price per share, and, to the extent a broker-dealer is unable to do so acting as agent for a selling stockholder, to purchase as principal any unsold shares at the price required to fulfill the broker-dealer commitment to the selling stockholder. Broker-dealers who acquire shares as principal may thereafter resell such shares from time to time in transactions which may involve block transactions and sales to and through other broker-dealers, including transactions of the nature described above, in the over-the-counter market or otherwise, at prices and on terms then prevailing at the time of sale, at prices then related to the then-current market price or in negotiated transactions. In connection with such resales, broker-dealers may pay to or receive from the purchasers of such shares commissions as described above.

From time to time the selling stockholders may engage in short sales (i.e. the sale of our stock when the seller does not own our stock by borrowing shares from someone who does), short sales against the box (i.e. the sale of shares borrowed from another shareholder while continuing to hold an equivalent number of shares), puts, calls and other hedging transactions in our securities, and may sell and deliver their shares of our common stock in connection with such transactions or in settlement of securities loans. These transactions may be entered into with broker-dealers or other financial institutions. In addition, from time to time a selling stockholder may pledge its shares pursuant to the margin provisions of its customer agreement with its broker-dealer or secure loans from financial institutions. Upon default by a selling stockholder, the broker-dealer or financial institution may offer and sell such pledged shares from time to time.

The selling stockholders and any broker-dealer participating in the distribution of the shares of common stock may be deemed to be underwriters within the meaning of the Securities Act, and any commissions paid, or any discounts or concessions allowed to any such broker-dealer may be deemed to be underwriting commissions or discounts under the Securities Act. At the time a particular offering of the shares of common stock is made, a prospectus supplement, if required, will be distributed which will set forth the aggregate amount of shares of common stock being offered and the terms of the offering, including the name or names of any broker-dealers or agents, any discounts, commissions and other terms constituting compensation from the selling stockholders and any discounts, commissions or concessions allowed or reallowed or paid to broker-dealers.

Under the securities laws of some states, the shares of common stock may be sold in such states only through registered or licensed brokers or dealers. In addition, in most states the shares of common stock may not be sold unless such shares have been registered or qualified for sale in such state or an exemption from registration or qualification is available and is complied with.

There can be no assurance that any selling stockholders will sell any or all of the shares of common stock registered pursuant to the registration statement of which this prospectus forms a part.

The selling stockholders and any other person participating in such distribution will be subject to applicable provisions of the Exchange Act and the rules and regulations thereunder, including, without limitation, Regulation M of the Exchange Act, which may limit the timing of purchases and sales of any of the shares of common stock by the selling stockholders and any other participating person.

Regulation M may also restrict the ability of any person engaged in the distribution of the shares of common stock to engage in market-making activities with respect to the shares of common stock. All of the foregoing may affect the marketability of the shares of common stock and the ability of any person or entity to engage in market-making activities with respect to the shares of common stock.

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A portion of the shares of common stock which are being registered hereunder may be issued upon exercise of warrants which we have issued to certain of the selling stockholders. This prospectus does not cover the sale or transfer of any such warrants. If a selling stockholder transfers its warrant prior to exercise thereof, the transferee(s) may not sell the shares of common stock issuable upon exercise of such warrant under the terms of this prospectus unless we first amend or supplement this prospectus to cover such shares and such seller.

We are required to pay all fees and expenses incident to the registration of the shares of our common stock offered hereby (other than broker-dealer discounts and commissions) which we estimate to be $154,579 in total, including, without limitation, Securities and Exchange Commission filing fees, expenses of compliance with state securities or blue sky laws, legal and accounting fees and transfer agent fees relating to sales pursuant to this prospectus; provided, however, that the selling stockholders will pay all underwriting discounts and selling commissions, if any. We have agreed to indemnify the selling stockholders against certain losses, claims, damages and liabilities, including liabilities under the Securities Act of 1933, as amended.

Once sold under the registration statement of which this prospectus forms a part, the shares of common stock will be freely tradable in the hands of persons other than our affiliates.

LEGAL PROCEEDINGS

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

DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS

The table below shows certain information about our directors, executive officers and significant employees:

Name	Age	Principal Positions
David R. Asplund	49	Chief Executive Officer and Director
Gregory T. Barnum	53	Director (1)(2)
William R. Carey, Jr.	59	Director (1)(3)
Joseph F. Desmond	44	Director
Richard P. Kiphart	65	Director (2)(3)
Jeffrey R. Mistarz	49	Executive Vice President, Chief Financial Officer, Treasurer and Secretary
Daniel W. Parke	51	President, Chief Operating Officer, President Parke Industries and Director
Gerald A. Pientka	51	Director (3)
Leonard Pisano	44	Executive Vice President, President of Maximum Performance Group
David W. Valentine	37	Director (1)(2)

(1) Member of our Audit Committee.

(2) Member of our Compensation Committee.

(3) Member of our Governance and Nominating Committee.

Our Board of Directors is currently authorized for a membership of up to twelve directors. As of May 8, 2007, our Board of Directors had four vacancies.

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David R. Asplund has been one of our directors since June 2002 and has been our chief executive officer since January 2006. Mr. Asplund has a degree in mechanical engineering from the University of Minnesota. Prior to becoming CEO of Lime Energy, Mr. Asplund was president of Delano Group Securities, LLC, an investment banking firm in Chicago, Illinois, which he founded in 1999. Mr. Asplund is also serves on the board of Agenet, Inc.

Gregory T. Barnum has been one of our directors since March 2006. Mr. Barnum is currently the vice president of finance and chief financial officer of Datalink Corporation, an information storage architect. Prior to joining Datalink in March 2006, Mr. Barnum was the vice president of finance, chief financial officer and corporate secretary of Computer Network Technology Corporation. From September 1992 to July 1997, Mr. Barnum served as senior vice president of finance and administration, chief financial officer and corporate secretary at Tricord Systems, Inc., a manufacturer of enterprise servers. From May 1988 to September 1992, Mr. Barnum served as the executive vice president, finance, chief financial officer, treasurer and corporate secretary for Cray Computer Corporation, a development stage company engaged in the design of supercomputers. Prior to that time, Mr. Barnum served in various accounting and financial management capacities for Cray Research, Inc., a manufacturer of supercomputers. Mr. Barnum also serves on the board of Wireless Ronin Technologies, Inc. Mr. Barnum is a Certified Public Accountant and a member of the American Institute of Certified Public Accountants.

William R. (Max) Carey has been one of our directors since March 2006. Mr. Carey is the chairman of the CRD Companies: CRD, CRD Capital, and CRD Analytics, which he founded in 1981. He is also a managing director of Entrepreneur Equity Corporation, an insurance broker that creates specialty products for middle market companies. Mr. Carey also serves on the boards of Outback Steakhouse Inc., Kforce, Inc., Crosswalk.com and J.B. Hanauer & Co., and is a founding board member of Crosswalk.com.

Joseph F. Desmond has been one of our directors since January 2007. Mr. Desmond is the Senior Vice President, External Affairs for NorthernStar Natural Gas, a developer of liquefied natural gas import terminals. From May 2005 until November 2006, Mr. Desmond served as the Chairman of the California Energy Commission. From May 2006 to November 2006, Mr. Desmond also served as the Under Secretary for Energy Affairs in the California Resources Agency. Prior to his public service for the State of California, Mr. Desmond served as President and Chief Executive Officer of Infotility, Inc., an energy consulting and software development firm based in Boulder, Colorado. From 1997 to 2000, Mr. Desmond was President and Chief Executive Officer of Electronic Lighting, Inc., a manufacturer of controllable lighting systems, and from 1991 to 1997 he was with Parke Industries, where he served as vice president.

Richard P. Kiphart has been one of our directors since January 2006, when he also became chairman of our board of directors. Mr. Kiphart is the head of the Corporate Finance Department and a Principal of William Blair & Company Investment firm. In addition, Mr. Kiphart currently serves as a member of the board of directors of First Data Corp., and previously served on the Concord EFS board of directors from 1997 until 2004 and was chairman of the Concord board of directors from February 2003 until March 2004. Mr. Kiphart is also currently a director of SAFLINK Corporation, Advanced Biotherapy, Inc. and Nature Vision, Inc. In addition he is the former chairman of the Merit Music School, is the president and chief executive officer of the Lyric Opera of Chicago, and the vice chairman of the Erikson Institute. He also serves on the board of DATA (Debt AIDS Trade Africa). Mr. Kiphart is the father in-law of David Valentine, one of our directors.

Jeffrey R. Mistarz has been our chief financial officer since January 2000, our treasurer since October 2000, an executive vice president since November 2002, our assistant secretary since February 2003 and our secretary since June 2006. From January 1994 until joining us, Mr. Mistarz served as chief financial officer for Nucon Corporation, a privately held manufacturer of material handling products and systems, where he was responsible for all areas of finance and accounting, managing capital and stockholder relations. Prior to joining Nucon, Mr. Mistarz was with First Chicago Corporation (now JPMorgan Chase & Co.) for 12 years where he held several positions in corporate lending, investment banking and credit strategy.

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Daniel W. Parke has been our president and chief operating officer since we acquired Parke P.A.N.D.A. Corporation, which he owned and served as its president from its founding in 2001. In addition to serving as our president and chief operating officer, Mr. Parke continues to serve as the president of Parke, which is now named Parke Industries LLC. Mr. Parke was previously a founder of Parke Industries, Inc., an energy solutions provider which was acquired in February 1998 by Strategic Resource Solutions, an unregulated subsidiary of Carolina Power & Light.

Gerald A. Pientka has been one of our directors since May 2000. Mr. Pientka is currently, and has been since February 2006 the executive vice president of development for First Industrial Realty Trust, Inc. From September 2003 to February 2006 he was the founder and principal of Verus Partners, a real estate development company located in Chicago, Illinois. Prior to this, from May 1999 through March 2003, Mr. Pientka was president of Higgins Development Partners, LLC (the successor to Walsh, Higgins & Company), a national real estate development company controlled by the Pritzker family interests. From May 1992 until May 1999, Mr. Pientka served as president of Walsh, Higgins & Company. Mr. Pientka is also a member of Leaf Mountain Company, LLC. Mr. Pientka is also board president of Christopher House, a Chicago-based social services agency.

Leonard Pisano has been our executive vice president of business development since June 2006. From May 3, 2005, the date we acquired Maximum Performance Group, Inc., until June 2006, he served as our Chief Operating Officer. He is also Maximum Performance Group s President and has been from its founding in February 2003. Prior to that, Mr. Pisano founded Maximum Energy Services in early 2001 and served as its president until it merged with Pentech Solutions to form Maximum Performance Group in February 2003. During his career, Mr. Pisano has held various senior management positions at companies within the energy services sector, including Parke Industries Inc. and SRS, a division of Carolina Power and Light. Prior to entering the energy services sector, Mr. Pisano spent ten years in facilities management at New York University, leaving NYU in 1996 when he was Director of Facilities.

David W. Valentine has been one of our directors since May 2004. David Valentine has been president and managing partner of Broadreach Financial Group LLC, a financial advisory firm, and managing partner of the Broadreach Steward Fund LLC, a private equity fund, since May 2006. Previously, Mr. Valentine was a portfolio manager at Magnetar Capital LLC, a multi-billion dollar hedge fund based in Evanston, Illinois. Mr. Valentine serves on the boards of Ambiron Trustwave LLC, Advanced Biotherapy Inc., Inovomed, Inc., and Friends of the Global Fight against AIDS, Malaria and Tuberculosis. Mr. Valentine is the son-in-law of Richard Kiphart, our chairman.

Independent Directors

Of the eight directors currently serving on the Board, the Board has determined that each of Messrs. Barnum, Carey, Desmond, Kiphart, Pientka and Valentine are independent directors as defined in Section 121(A) of the American Stock Exchange listing standards.

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SELLING STOCKHOLDERS

The 40,633,588 shares of common stock being offered by the selling stockholders consist of 40,268,921 shares that have been issued, and 364,667 shares issuable upon exercise of warrants owned by the selling stockholders. We are registering the shares of common stock so that the selling stockholders may offer the shares for resale from time to time.

Securities which have been acquired directly from the Company in a transaction not involving any public offering are usually considered restricted securities. The sale of restricted securities is generally restricted by the Securities Act of 1933, as amended. Rule 144 under the Securities Act of 1933 provides certain conditions under which restricted securities may be sold, and provisions under which any sales of restricted or unrestricted securities by our affiliates may be made. During any 90 day period the sale of restricted securities, or the sale of any securities by those shareholders who are deemed to be affiliates of the Company, is limited by Rule 144 to the greater of one percent (1%) of the outstanding shares of the Company s common stock, or the average weekly trading volume of the Company s common stock during the preceding four week period. The term affiliate is defined in Rule 144 as a person that directly or indirectly controls, is controlled by, or is under common control with, the issuer. In addition, for any sale of restricted securities, the securities must have been held by the selling stockholder for at least one year and they must be sold in brokers transactions (as defined in Rule 144). The trading restrictions of Rule 144 continue to apply to affiliates for a period of three months following the date on which the shareholder no longer is considered an affiliate of the Company. All of the shares of common stock being offered under this prospectus are restricted securities, but Rule 144 permits sales after the restricted securities have been held for one year, subject to certain restrictions. Rule 144(k) permits sales without such restrictions if the securities have been held two years or more and the seller is not and has not been an affiliate for at least three months. Once the registration statement of which this prospectus forms a part is declared effective, the selling stockholders will be able to sell the shares covered hereby without complying with Rule 144, provided that the current prospectus is delivered as required by SEC rules and the Securities Act of 1933, except that if any selling stockholder is an affiliate of the Company at the time of any sale, the restrictions under Rule 144 relating to sales by affiliates will continue to apply and except that a selling stockholder which is a broker-dealer is an underwriter and is not eligible to rely on Rule 144. Any buyer which is an affiliate of the Company at the time it later sells any of our securities will be subject to the restrictions under Rule 144 relating to sales by affiliates. Otherwise, such buyer will be able to sell free of such restrictions.

The table below lists the selling stockholders and other information regarding the beneficial ownership of the common stock by each of the selling stockholders. The first column lists, for each selling stockholder, the number of shares of common stock held by such stockholder including shares issuable pursuant to exercise of warrants and options exercisable within 60 days to such stockholder. The second column lists the shares of common stock (including shares issued or issuable upon exercise of warrants) being offered by this prospectus by each selling stockholder. The column titled Ownership After Offering assumes the sale of all of the shares offered by each selling stockholder, although each selling stockholder may sell all, some or none of its shares in this offering. Except as otherwise noted in the notes to the table below, the business address of each selling stockholder is c/o the Company, 1280 Landmeier Road, Elk Grove Village, IL 60007-2410.

Selling Stockholder	Ownership Prior to Offering		Securities Being	Ownership After Offering	
	Shares	%	Offered	Shares	%
David R. Asplund *(1)(48)*	3,638,217*(2)*	6.581%	1,874,408*(3)*	1,763,809	3.191%
Augustine Fund LP *(4)*	2,680,458*(5)*	5.002%	2,555,926*(6)*	124,532	*
Bristol Capital Ltd. *(7)*	70,000*(8)*	*	60,000*(9)*	10,000	*
Christopher Capps	25,858	*	25,741*(10)*	117	*
Cinergy Ventures II, LLC *(11)*	3,146,604*(12)*	5.869%	2,823,847*(13)*	322,757	*
John Donohue	307,459*(14)*	*	286,613*(15)*	20,846	*
Gregory H. Ekizian Revocable Trust	413,733	*	411,866*(16)*	1,867	*
Julia Gluck	103,433	*	102,966*(17)*	467	*
John Thomas Hurvis Revocable Trust	566,041*(18)*	1.057%	505,934*(19)*	60,107	*
Ingalls & Snyder, LLC *(20)*	6,314,948	11.789%	6,058,000*(20)*	256,948	*
Rebecca Kiphart	206,867	*	205,934*(21)*	933	*
Richard P. Kiphart *(22)(4)*	15,021,451*(23)*	27.946%	14,213,260*(24)*	808,191	1.504%
Laurus Master Fund, Ltd *(25)*	1,531,461*(26)*	2.849%	1,404,477*(27)*	126,984	*
Leaf Mountain Company *(28)*	3,371,334	6.294%	3,275,300*(29)*	96,034	*
Martin Melish	258,583	*	257,416*(30)*	1,167	*
Nettlestone Enterprises Ltd. *(31)*	1,551,500	2.896%	1,544,500*(32)*	7,000	*
Security Equity Fund, Mid Cap Value Series *(33)(48)*	130,717*(34)*	*	130,717*(35)*	0	0.000%
SBL Fund Series V *(33)(48)*	103,333*(36)*	*	103,333*(37)*	0	0.000%
Security Mid Cap Growth Fund *(33)(48)*	91,967*(38)*	*	91,967*(39)*	0	0.000%
SBL Fund Series J *(33)(48)*	190,650*(40)*	*	190,650*(41)*	0	0.000%
SF Capital Partners Ltd. *(42)*	4,306,267*(43)*	8.039%	4,168,252*(44)*	138,015	*
David W. Valentine *(45)*	495,345*(46)*	*	342,481*(47)*	152,864	*

* *Less than 1%*

(1) David Asplund is a Director and has been our CEO since January 2006.

(2) Includes warrants to purchase 2,852 shares of common stock at $1.00 per share anytime prior to September 7, 2008, which Mr. Asplund acquired in the ordinary course of business. At the time when Mr. Asplund acquired the warrant he had no agreements or understanding, directly or indirectly, with anyone to distribute the shares issuable under such warrant. Also includes 6,766 shares of common stock and a warrant held by Delano Group Securities, LLC, a broker-dealer of which Mr. Asplund is the principal owner (and therefore an affiliate of Mr. Asplund), to purchase 2,000 shares of common stock at $15.45 per share anytime prior to February 10,

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2010. Delano acquired the shares and warrant in the ordinary course of business and at the time when Delano acquired securities it had no agreements or understanding, directly or indirectly, with anyone to distribute the shares or the shares issuable under such warrant. The common stock and shares issuable pursuant to the warrant are not included as a securities being offered as part of this prospectus. Also includes the following employee and director options exercisable within 60 days:

Quantity	Exercise Price	Expiration Date
1,667	$15.00	6/10/2013
1,667	$15.00	6/10/2015
5,000	$17.55	6/10/2012
1,666	$27.75	6/10/2014
100,000	$ 9.30	1/22/2016
100,000	$ 0.96	1/22/2016
1,500,000	$ 1.02	7/11/2016
1,710,000		

(3) Mr. Asplund acquired 1,854,200 shares on June 29, 2006, consisting of 1,500,000 purchased in the PIPE Transaction, and 354,200 acquired pursuant to the Series E Conversion. Following the filing of the amendment which made a 1 for 15 reverse split of our common stock effective on January 23, 2007 (the Reverse Split), the shares acquired on June 29, 2006 were combined into 123,613 shares of common stock. On or about February 1, 2007, we issued 1,730,587 catch-up shares to him in consideration of his relinquishing any claims relating to the timing of the Reverse Split. See Recent Events *Reverse Stock Split*. The 1,874,408 shares being offered by Mr. Asplund consist of 1,652,200 catch-up shares, 100,000 shares deriving from the shares issued pursuant to the Series E Conversion, 77,708 shares deriving from the shares acquired in the PIPE Transaction and 44,500 shares issued on January 24, 2007 and February 2, 2007 in satisfaction of penalties owed to Mr. Asplund due to the Company s inability to register the shares he purchased in the PIPE Transaction on or before November 3, 2006.

(4) The controlling members, directors and officers, all of whom are Thomas Duszynski, Brian Porter and John Porter, may be deemed to share power to vote or dispose of the shares held by Augustine Fund LP. The business address of Augustine Fund LP is 141 West Jackson Blvd., Suite 2182, Chicago, Illinois 60604.

(5) Includes warrants to purchase 18,125 shares of common stock at $1.00 per share anytime prior to their expiration on September 7, 2008.

(6) Augustine Fund LP acquired 2,628,000 shares on June 29, 2006, consisting of 1,628,000 shares acquired pursuant to the Series E Conversion and 1,000,000 shares purchased in the PIPE Transaction. Following the filing of the amendment which made the Reverse Split effective on January 23, 2007, the shares acquired on June 29, 2006 were combined into 175,200 shares of common stock. On or about February 1, 2007, we issued 2,452,800 catch-up shares to Augustine Fund in consideration of its relinquishing any claims relating to the timing of the Reverse Split. See Recent Events *Reverse Stock Split*. The 2,555,926 shares being offered by Augustine Fund consist of 2,386,133 catch-up shares, 66,667 shares derived from the shares acquired in the PIPE Transaction, 73,460 shares deriving from the shares issued pursuant to the Series E Conversion, and 29,666 shares issued on January 24, 2007 and February 2, 2007 in satisfaction of penalties owed to Augustine due to the Company s inability to register the shares it purchased in the PIPE Transaction on or before November 3, 2006.

(7) Bristol Capital Ltd. is beneficially owned by Yelena Akselrod. Bristol Capital Ltd. is currently acting as an Investor Relations consultant to the Company.

(8) Includes a warrant to purchase 10,000 shares of common stock at $15.45 per share anytime prior to its expiration on 1/25/08 and a warrant to purchase 60,000 shares of common stock at $1.00 per share anytime prior to its expiration on July 25, 2009.

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(9) Represents a warrant to purchase 60,000 shares of common stock at $1.00 per share anytime prior to its expiration on July 25, 2009. All of the shares being offered by Bristol Capital Ltd. are shares which would be acquired by exercising this warrant.

(10) Mr. Capps purchased 25,000 shares in the PIPE Transaction on June 29, 2006. Following the filing of the amendment which made the Reverse Split effective on January 23, 2007, the shares acquired on June 29, 2006 were combined into 1,667 shares of common stock. On or about February 1, 2007, we issued 23,333 catch-up shares to Mr. Capps in consideration of his relinquishing any claims relating to the timing of the Reverse Split. See Recent Events *Reverse Stock Split*. The 25,741 shares being offered by Mr. Capps consist of 23,333 catch-up shares, 1,667 shares deriving from the shares acquired in the PIPE Transaction and 741 shares issued on January 24, 2007 and February 2, 2007 in satisfaction of penalties owed to Mr. Capps due to the Company s inability to register the shares he purchased in the PIPE Transaction on or before November 3, 2006.

(11) Cinergy Technologies, Inc. is a wholly-owned subsidiary of Cinergy Corp. a publicly traded company, and is also the sole member of Cinergy Ventures II, LLC. Greg Wolf, a vice president of Cinergy Ventures, has the authority to vote and dispose of the shares held by Cinergy Ventures II, LLC. The business address of Cinergy Ventures II, LLC is 139 East Fourth Street, Cincinnati, Ohio 45202.

(12) Includes 3,092,513 shares of common stock, 45,625 shares of common stock issuable upon exercise of warrants and 3,333 shares of common stock issuable upon exercise of options. The warrants carry an exercise price of $1.00 per share. Warrants to purchase 5,625 shares expire on June 27, 2007 and warrants to purchase 40,000 shares expire on September 7, 2008. The options carry an exercise price of $16.05 per share and expire on July 23, 2013.

(13) Cinergy Ventures II, LLC acquired 3,002,293 shares on June 29, 2006, consisting of 1,902,293 shares acquired pursuant to the Series E Conversion and 1,100,000 shares purchased in the PIPE Transaction. Following the filing of the amendment which made the Reverse Split effective on January 23, 2007, the shares acquired on June 29, 2006 were combined into 200,153 shares of common stock. On or about February 1, 2007, we issued 2,802,140 catch-up shares to Cinergy Ventures II in consideration of its relinquishing any claims relating to the timing of the Reverse Split. See Recent Events *Reverse Stock Split*. The 2,823,847 shares being offered by Cinergy Ventures II consist of 2,591,060 catch-up shares, 73,333 shares deriving from the shares acquired in the PIPE Transaction, 126,820 shares deriving from the shares issued pursuant to the Series E Conversion and 32,634 shares issued on January 24, 2007 and February 2, 2007 in satisfaction of penalties owed to Cinergy Ventures II due to the Company s inability to register the shares it purchased in the PIPE Transaction on or before November 3, 2006.

(14) Includes warrants to purchase 3,125 shares of common stock at $1.00 per share anytime prior to their expiration on September 7, 2008.

(15) Mr. Donohue acquired 294,000 shares on June 29, 2006 pursuant to the Series E Conversion. Following the filing of the amendment which made the Reverse Split effective on January 23, 2007, the shares acquired on June 29, 2006 were combined into 19,600 shares of common stock. On or about February 1, 2007, we issued 274,400 catch-up shares to Mr. Donohue in consideration of his relinquishing any claims relating to the timing of the Reverse Split. See Recent Events *Reverse Stock Split*. The 286,613 shares being offered by Mr. Donohue consist of 267,013 catch-up shares and 19,600 shares deriving from the shares issued pursuant to the Series E Conversion.

(16) The Gregory H. Ekezian Revocable Trust purchased 400,000 shares in the PIPE Transaction on June 29, 2006. Following the filing of the amendment which made the Reverse Split effective on January 23, 2007, the shares acquired on June 29, 2006 were combined into 26,667 shares of common stock. On or about February 1, 2007, we issued 373,333 catch-up shares to the Ekezian Revocable Trust in consideration of its relinquishing any claims relating to the timing

of the Reverse Split. See Recent Events *Reverse Stock Split*. The 411,866 shares being offered by the Ekezian Revocable Trust consist of 373,333 catch-up shares, 26,667 shares deriving from the shares acquired in the PIPE Transaction and 11,866 shares issued on January 24, 2007 and February 2, 2007, in satisfaction of penalties owed to the Ekezian Revocable Trust due to the Company s inability to register the shares it purchased in the PIPE Transaction on or before November 3, 2006.

(17) Ms. Julia Gluck purchased 100,000 shares in the PIPE Transaction on June 29, 2006. Following the filing of the amendment which made the Reverse Split effective on January 23, 2007, the shares acquired on June 29, 2006 were combined into 6,667 shares of common stock. On or about February 1, 2007, we issued 93,333 catch-up shares to Ms. Gluck in consideration of her relinquishing any claims relating to the timing of the Reverse Split. See Recent Events *Reverse Stock Split*. The 102,966 shares being offered by Ms. Gluck consist of 93,333 catch-up shares, 6,667 shares deriving from the shares acquired in the PIPE Transaction and 2,966 shares issued on January 24, 2007 and February 2, 2006 in satisfaction of penalties owed to Ms. Gluck due to the Company s inability to register the shares she purchased in the PIPE Transaction on or before November 3, 2006.

(18) Includes the following warrants:

Quantity	Exercise Price	Expiration Date
4,630	$15.75	4/28/2008
4,375	$ 1.00	9/07/2008
352	$ 1.00	6/27/2007
9,357		

(19) John Thomas Hurvis Revocable Trust acquired 540,053 shares on June 29, 2006, consisting of 340,053 shares acquired pursuant to the Series E Conversion and 200,000 shares purchased in the PIPE Transaction. Following the filing of the amendment which made the Reverse Split effective on January 23, 2007, the shares acquired on June 29, 2006 were combined into 36,004 shares of common stock. On or about February 1, 2007, we issued 504,049 catch-up shares to Hurvis Revocable Trust in consideration of its relinquishing any claims relating to the timing of the Reverse Split. See Recent Events *Reverse Stock Split*. The 505,934 shares being offered by Hurvis Revocable Trust consist of 463,997 catch-up shares, 13,333 shares deriving from the shares acquired in the PIPE Transaction, 22,670 shares deriving from the shares issued pursuant to the Series E Conversion and 5,934 shares issued on January 24, 2007 and February 2, 2007 in satisfaction of penalties owed to the Hurvis Revocable Trust due to the Company s inability to register the shares it purchased in the PIPE Transaction on or before November 3, 2006.

(20) Ingalls & Snyder, LLC is the nominee holder of shares beneficial owned by Mr. Robert Gibson, Mr. Thomas Gipson and Mr. Nikolaos Monoyios. The business address for Ingalls & Synder, LLC is 61 Broadway, New York, NY 10006.

Mr. Robert Gipson acquired 2,363,600 shares on June 29, 2006, consisting of 450,000 shares purchased in the PIPE Transaction and 1,913,600 acquired pursuant to the Series E Conversion. Following the filing of the amendment which made the Reverse Split effective on January 23, 2007, the shares acquired on June 29, 2006 were combined into 157,573 shares of common stock. On or about February 1, 2007, we issued 2,206,027 catch-up shares to Mr. Gipson in consideration of his relinquishing any claims relating to the timing of the Reverse Split. See Recent Events *Reverse Stock Split*. The 2,256,750 shares being offered by Mr. Gipson consist of 2,093,840 catch-up shares, 30,000 shares deriving from the shares acquired in the PIPE Transaction, 119,560 shares deriving from the shares issued pursuant to the Series E Conversion, and 13,350 shares issued on January 24, 2007 and February 2, 2007 in satisfaction of penalties owed to Mr. Gipson due to the Company s inability to register the shares he purchased in the PIPE Transaction on or before November 3, 2006.

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Mr. Thomas Gipson purchased 1,500,000 shares in the PIPE Transaction on June 29, 2006. Following the filing of the amendment which made the Reverse Split effective on January 23, 2007, the shares acquired on June 29, 2006 were combined into 100,000 shares of common stock. On or about February 1, 2007, we issued 1,400,000 catch-up shares to Mr. Gipson in consideration of his relinquishing any claims relating to the timing of the Reverse Split. See Recent Events *Reverse Stock Split*. The 1,544,500 shares being offered by Mr. Gipson consist of 1,400,000 catch-up shares, 100,000 shares deriving from the shares acquired in the PIPE Transaction and 44,500 shares issued on January 24, 2007 and February 2, 2007 in satisfaction of penalties owed to Mr. Gipson due to the Company s inability to register the shares he purchased in the PIPE Transaction on or before November 3, 2006.

Mr. Monoyios acquired 2,363,600 shares on June 29, 2006, consisting of 1,913,600 shares acquired pursuant to the Series E Conversion and 450,000 shares purchased in the PIPE Transaction. Following the filing of the amendment which made the Reverse Split effective on January 23, 2007, the shares acquired on June 29, 2006 were combined into 157,573 shares of common stock. On or about February 1, 2007, we issued 2,206,027 catch-up shares to Mr. Monoyios in consideration of his relinquishing any claims relating to the timing of the Reverse Split. See Recent Events *Reverse Stock Split*. The 2,256,750 shares being offered by Mr. Monoyios consist of 2,085,840 catch-up shares, 30,000 shares deriving from the shares acquired in the PIPE Transaction, 127,560 shares deriving from the shares issued pursuant to the Series E Conversion and 13,350 shares issued on January 24, 2007 and February 2, 2007 in satisfaction of penalties owed to Mr. Monoyios due to the Company s inability to register the shares he purchased in the PIPE Transaction on or before November 3, 2006.

(21) Ms. Rebecca Kiphart purchased 200,000 shares in the PIPE Transaction on June 29, 2006. Following the filing of the amendment which made the Reverse Split effective on January 23, 2007, the shares acquired on June 29, 2006 were combined into 13,333 shares of common stock. On or about February 1, 2007, we issued 186,667 catch-up shares to Ms. Kiphart in consideration of her relinquishing any claims relating to the timing of the Reverse Split. See Recent Events *Reverse Stock Split*. The 205,934 shares being offered by Ms. Kiphart consist of 186,667 catch-up shares, 13,333 shares deriving from the shares acquired in the PIPE Transaction and 5,934 shares issued on January 24, 2007 and February 2, 2007 in satisfaction of penalties owed to Ms. Kiphart due to the Company s inability to register the shares she purchased in the PIPE Transaction on or before November 3, 2006.

(22) Richard Kiphart has been a director and the Chairman of our Board of Directors since January 2006.

(23) Includes 14,810,072 shares of common stock and the following options and warrants exercisable within 60 days:

Instrument	Quantity	Exercise Price	Expiration Date
Warrant	4,922	$ 1.00	6/27/2007
Warrant	8,398	$ 1.00	4/23/2008
Warrant	43,125	$ 1.00	9/7/2008
Option	3,334	$15.00	1/24/2016
Option	100,000	$ 1.02	7/11/2016
Option	25,000	$ 0.90	1/2/2017
	184,779		

(24) Mr. Kiphart acquired 14,603,400 shares on June 29, 2006, consisting of 8,903,400 shares acquired pursuant to the Series E Conversion and 5,700,000 shares purchased in the PIPE Transaction. Following the filing of the amendment which made the Reverse Split effective on January 23, 2007, the shares acquired on June 29, 2006 were combined into 973,560 shares of common stock. On or about February 1, 2007, we issued 13,629,840 catch-up shares to Mr. Kiphart in consideration of his relinquishing any claims relating to the timing of the

Reverse

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Split. See Recent Events *Reverse Stock Split*. The 14,213,260 shares being offered by Mr. Kiphart consist of 13,070,600 catch-up shares, 380,000 shares deriving from the shares acquired in the PIPE Transaction, 593,560 shares deriving from the shares issued pursuant to the Series E Conversion and 169,100 shares issued on January 24, 2007 and February 2, 2006 in satisfaction of penalties owed to Mr. Kiphart due to the Company s inability to register the shares he purchased in the PIPE Transaction on or before November 3, 2006.

(25) Laurus Master Fund, Ltd. exercises dispositive and voting control with respect to the securities to be offered for resale. Laurus Capital Management, LLC controls Laurus Master Fund, Ltd. Eugene Grin and David Grin are the sole members of Laurus Capital Management, LLC. From September 2003 through June 2006, Laurus was a lender to the Company. On June 29, 2006, all obligations owing to Laurus were repaid in full and the only continuing relationship between the Company and Laurus is that of an issuer and a holder of its common stock and warrants.

(26) Includes the following warrants:

Quantity	Exercise Price	Expiration Date
26,667	$15.00	4/26/2010
133,333	$17.40	11/22/2012
2,667	$36.60	9/11/2008
5,333	$38.10	9/11/2008
3,333	$39.75	9/11/2008
6,667	$44.55	9/11/2008
3,333	$46.05	9/11/2008
6,667	$47.70	9/11/2008
188,000		

(27) Laurus Master Fund, Ltd. acquired 1,343,461 shares on June 29, 2006 in satisfaction of obligations of the Company to Laurus. (See Recent Events *The PIPE Transaction, Series E Preferred Conversion and Laurus Repayment*.) Following the filing of the amendment which made the Reverse Split effective on January 23, 2007, the shares acquired on June 29, 2006 were combined into 89,564 shares of common stock. On or about February 1, 2007, we issued 1,253,897 catch-up shares to Laurus in consideration of its relinquishing any claims relating to the timing of the Reverse Split. See Recent Events *Reverse Stock Split*. The 1,404,477 shares being offered by Laurus consist of 1,253,897 catch-up shares, 89,564 shares deriving from the shares acquired on June 29, 2006, and 188,000 shares which would be acquired by exercising warrants issued by the Company to Laurus as described in Note (26) above.

(28) John J. Jiganti is the Manager of Leaf Mountain Company and has the sole decision-making power with respect to Leaf Mountain Company s investment in Lime Energy. Mr. Gerald Pientka, who is one of our directors, is also a member of Leaf Mountain Company, LLC. The business address for Leaf Mountain is 190 South LaSalle Street, Suite 1700, Chicago, IL 60603.

(29) Leaf Mountain Company acquired 3,315,900 shares on June 29, 2006, consisting of 2,015,900 shares acquired pursuant to the Series E Conversion and 1,300,000 shares purchased in the PIPE Transaction. Following the filing of the amendment which made the Reverse Split effective on January 23, 2007, the shares acquired on June 29, 2006 were combined into 221,060 shares of common stock. On or about February 1, 2007, we issued 3,094,840 catch-up shares to Leaf Mountain in consideration of its relinquishing any claims relating to the timing of the Reverse Split. See Recent Events *Reverse Stock Split*. The 3,275,300 shares being offered by Leaf Mountain consist of 3,015,674 catch-up shares, 86,667 shares deriving from the shares acquired in the PIPE Transaction, 134,393 shares deriving from the shares issued pursuant to the Series E Conversion and 38,566 shares issued on January 24, 2007 and February 2, 2007 in satisfaction of penalties owed to Leaf Mountain due to the Company s

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inability to register the shares it purchased in the PIPE Transaction on or before November 3, 2006.

(30) Mr. Mellish purchased 250,000 shares in the PIPE Transaction on June 29, 2006. Following the filing of the amendment which made the Reverse Split effective on January 23, 2007, the shares acquired on June 29, 2006 were combined into 16,667 shares of common stock. On or about February 1, 2007, we issued 233,333 catch-up shares to Mr. Mellish in consideration of his relinquishing any claims relating to the timing of the Reverse Split. See Recent Events *Reverse Stock Split*. The 257,416 shares being offered by Mr. Mellish consist of 233,333 catch-up shares, 16,667 shares deriving from the shares acquired in the PIPE Transaction. and 7,416 shares issued on January 24, 2007 and February 2, 2007 in satisfaction of penalties owed to Mr. Mellish due to the Company s inability to register the shares he purchased in the PIPE Transaction on or before November 3, 2006.

(31) Nettlestone Enterprises Ltd. is beneficially owned by Mr. Khalid Ali Alturki. The business address for Nettlestone is c/o Aspen Advisory Services Ltd., 44 Lowndes Street, London SW1X 9HX.

(32) Nettlestone Enterprises Ltd. purchased 1,500,000 shares in the PIPE Transaction on June 29, 2006. Following the filing of the amendment which made the Reverse Split effective on January 23, 2007, the shares acquired on June 29, 2006 were combined into 100,000 shares of common stock. On or about February 1, 2007, we issued 1,400,000 catch-up shares to Nettlestone Enterprises in consideration of its relinquishing any claims relating to the timing of the Reverse Split. See Recent Events *Reverse Stock Split*. The 1,544,500 shares being offered by Nettlestone Enterprises consist of 1,400,000 catch-up shares, 100,000 shares deriving from the shares acquired in the PIPE Transaction and 44,500 shares issued on January 24, 2007 and February 2, 2007 in satisfaction of penalties owed to Nettlestone due to the Company s inability to register the shares it purchased in the PIPE Transaction on or before November 3, 2006.

(33) Security Management Company, LLC (SMC), an investment advisor registered under Section 203 of the Investment Advisers Act of 1940, is the investment advisor to; (a) Security Mid Cap Growth Fund, (b) Security Equity Fund, Mid Cap Value Series, (c) SBL Fund, Series J and (d) SBL Fund, Series V (collectively, the Funds). The securities listed in the above table are owned by the Funds, as investment companies registered under the Investment Company Act of 1940, as amended. Pursuant to investment management agreements entered into between SMC and each of the Funds, SMC holds investment discretion to purchase and sell the shares on behalf of the Funds. SMC generally appoints individual portfolio managers to make investment decisions on its behalf, although in certain instances a portfolio manager may delegate authority to another SMC employee to execute isolated transactions. Additionally, SMC holds the power to vote the securities and exercises this power through formal proxy voting procedures (the Procedures) it has adopted. With respect to matters to be voted on that are not addressed in the Procedures or where the Procedures indicate that voting decisions are to be made on a case-by-case basis, the Procedures state that the portfolio manager on the account shall direct the vote, provided that SMC s chief compliance officer has determined that SMC has no conflict of interest in the matter. James P. Schier is currently the portfolio manager with respect to the Funds. SMC has the sole discretion to change portfolio managers at any time. The shares of Lime Energy stock held by these selling shareholders were obtained through a private placement of our common stock and warrants to purchase shares of our common stock on March 19, 2004. The business address for Security Management Company, LLC is One Security Benefit Place, Topeka, KS 66636-0001.

(34) Includes warrants to purchase 29,517 shares of common stock at $1.00 per shares anytime prior to their expiration on March 19, 2009.

(35) Of the 130,717 shares being offered by Security Equity Fund, Mid Cap Value Series, 29,517 are shares which would be acquired pursuant to exercise of the warrants described in Note (34), 84,333 are shares purchased from the Company on March 19, 2004 and 16,867 were purchased in a private transaction on March 19, 2004 from a former holder of the Company s Series A Convertible Preferred Stock.

(36) Includes warrants to purchase 23,333 shares of common stock at $1.00 per shares anytime prior to their expiration on March 19, 2009.

(37) Of the 103,333 shares being offered by SBL Fund Series V, 23,333 are shares which would be acquired pursuant to exercise of the warrants described in Note (36), 66,667 are shares purchased from the Company on March 19, 2004 and 13,333 were purchased in a private transaction on March 19, 2004 from a former holder of the Company s Series A Convertible Preferred Stock.

(38) Includes warrants to purchase 20,767 shares of common stock at $1.00 per shares anytime prior to their expiration on March 19, 2009.

(39) Of the 91,967 shares being offered by Security Mid Cap Growth Fund, 20,767 are shares which would be acquired pursuant to exercise of the warrants described in Note (38), 59,333 are shares purchased from the Company on March 19, 2004 and 11,867 were purchased in a private transaction on March 19, 2004 from a former holder of the Company s Series A Convertible Preferred Stock.

(40) Includes warrants to purchase 43,050 shares of common stock at $1.00 per shares anytime prior to their expiration on March 19, 2009.

(41) Of the 190,650 shares being offered by SBL Fund Series J, 43,050 are shares which would be acquired pursuant to exercise of the warrants described in Note (40), 123,000 are shares purchased from the Company on March 19, 2004 and 24,600 were purchased in a private transaction on March 19, 2004 from a former holder of the Company s Series A Convertible Preferred Stock.

(42) SF Capital Partners Ltd. is a British Virgin Island company. Staro Asset Management, L.L.C., a Wisconsin limited liability company, acts as investment manager and has sole power to direct the management of SF Capital Partners. Through Staro Asset Management, Messrs. Michael A. Roth and Brian J. Stark possess sole voting and dispositive power over all shares owned by SF Capital Partners, but disclaim beneficial ownership of such shares. The mailing address for SF Capital Partners is c/o Stark Offshore Management, LLC, 3600 South Lake Drive, St. Francis, WI 53235.

(43) Excludes warrants to purchase 42,813 shares of common stock which contain provisions known as exercise caps which prohibit the holder of the warrants (and its affiliates) from exercising such warrants to the extent that giving effect to such exercise, such holder would beneficially own in excess of 4.999% and 9.999% of the Company s outstanding common stock, as the case may be. The holder can waive the 4.999% limit, but such waiver will not become effective until the 61st day after such notice is delivered to the Company, and these limits will not restrict the number of shares of common stock which a holder may receive or beneficially own in order to determine the amount of securities or other consideration that such holder may receive in the event of a merger or other business combination or reclassification involving the Company. The table set forth above reflects the operation of such exercise caps in that we have not included 42,813 shares of common stock issuable pursuant to such warrants as SF Capital Partners has advised us that it does not beneficially own such shares due to the fact that it cannot exercise its right to purchase these shares at this time. In the absence of such caps, SF Capital would be able to purchase all the shares issuable upon exercise of these warrants and would have a beneficial ownership percentage of 8.113%. Information on these warrants is as follows:

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Quantity	Exercise Price	Expiration Date
20,000	$ 1.00	2/27/2008
20,000	$ 1.00	9/7/2008
2,813	$ 1.00	6/27/2007
42,813		

(44) SF Capital Partners acquired 4,237,600 shares on June 29, 2006, consisting of 2,237,600 shares acquired pursuant to the Series E Conversion and 2,000,000 shares purchased in the PIPE Transaction. Following the filing of the amendment which made the Reverse Split effective on January 23, 2007, the shares acquired on June 29, 2006 were combined into 282,507 shares of common stock. On or about February 1, 2007, we issued 3,955,093 catch-up shares to SF Capital in consideration of its relinquishing any claims relating to the timing of the Reverse Split. See Recent Events *Reverse Stock Split*. The 4,168,252 shares being offered by SF Capital consist of 3,825,872 catch-up shares, 133,333 shares deriving from the shares acquired in the PIPE Transaction, 149,713 shares deriving from the shares issued pursuant to the Series E Conversion and 59,344 shares issued on January 24, 2007 and February 2, 2007 in satisfaction of penalties owed to SF Capital due to the Company s inability to register the shares he purchased in the PIPE Transaction on or before November 3, 2006.

(45) David Valentine has been one of our Directors since May 2004.

(46) Includes the following options issued pursuant to the Directors Option Plan which are exercisable within the next 60 days:

Quantity	Exercise Price	Expiration Date
1,667	$15.00	5/26/2015
1,112	$15.00	5/26/2016
4,999	$26.10	5/26/2014
100,000	$ 1.02	7/11/2016
25,000	$ 0.90	1/2/2017
132,778		

(47) Mr. Valentine acquired 345,700 shares on June 29, 2006, consisting of 145,700 shares acquired pursuant to the Series E Conversion and 200,000 shares purchased in the PIPE Transaction. Following the filing of the amendment which made the Reverse Split effective on January 23, 2007, the shares acquired on June 29, 2006 were combined into 23,047 shares of common stock. On or about February 1, 2007, we issued 322,653 catch-up shares to Mr. Valentine in consideration of his relinquishing any claims relating to the timing of the Reverse Split. See Recent Events *Reverse Stock Split*. The 342,481 shares being offered by Mr. Valentine consist of 313,501 catch-up shares, 13,333 shares deriving from the shares acquired in the PIPE Transaction, 9,713 shares deriving from the shares issued pursuant to the Series E Conversion and 5,934 shares issued on January 24, 2007 and February 2, 2007 in satisfaction of penalties owed to Mr. Valentine due to the Company s inability to register the shares he purchased in the PIPE Transaction on or before November 3, 2006.

(48) The selling stockholder is an affiliate of a broker-dealer, acquired the common stock in the ordinary course of business and, at the time of acquisition, did not have any arrangements or understandings, directly or indirectly, with any person to distribute the common stock.

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DESCRIPTION OF SECURITIES

In the following summary, we describe the material terms of our capital stock by summarizing material provisions of our charter and by-laws. We have incorporated by reference these organizational documents as exhibits to the registration statement of which this prospectus is a part.

General

As of May 8, 2007, we had 200,000,000 authorized shares of common stock and 5,000,000 shares of authorized preferred stock, of which:

53,566,100 shares are issued and outstanding;

166,149 shares of common stock were being held in escrow for the benefit of the selling shareholders of Maximum Performance Group (MPG) to be released over the two year period following the purchase of MPG (May 3, 2005) if it achieves certain revenue targets during the period. Any shares not issued to the selling shareholders will be returned to the Company at the end of the two year period. To date, no shares have been released from such Escrow.

1,522,119 shares of common stock are issuable upon exercise of outstanding common stock warrants;

11,022,466 shares of common stock are issuable upon exercise of outstanding stock options; and

No shares of preferred stock or other rights or options, warrants to acquire preferred stock are outstanding.

Common Stock

Holders of our common stock are entitled to one vote per share on all matters submitted to a vote of our stockholders and will share ratably on a per share basis in any dividends declared on our common stock. Holders of our common stock have no preemptive, subscription, redemption or conversion rights. Upon our liquidation, dissolution or winding up and after payment of all prior claims, the holders of shares of common stock would share ratably on a per share basis in all of our assets. All shares of common stock currently outstanding are fully paid and nonassessable. Any shares of common stock which the selling stockholders acquire through exercise of their warrants will also be fully paid and nonassessable.

Preferred Stock

Our board of directors, without further stockholder approval, may authorize the issuance of preferred stock in one or more series from time to time and fix or alter the designations, relative rights, priorities, preferences, qualifications, limitations and restrictions of the shares of each series. The rights, preferences, limitations and restrictions of different series of preferred stock may differ with respect to dividend rates, amounts payable on liquidation, voting rights, conversion rights, redemption provisions, sinking fund provisions and other matters. Our board of directors (1) may authorize the issuance of preferred stock that ranks senior to our common stock for the payment of dividends and the distribution of assets on liquidation, (2) can fix limitations and restrictions upon the payment of dividends on our common stock to be effective while any shares of preferred stock are outstanding, and (3) can also issue preferred stock with voting and conversion rights that could adversely affect the voting power of the holders of common stock.

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Warrants

Included in the shares of common stock being registered pursuant to this prospectus are 364,667 shares issuable upon the exercise of warrants. These warrants include:

A three year warrant held by Bristol Capital, Ltd. to purchase 60,000 shares of common stock at $1.00 per share on, or anytime before, July 25, 2009;

A five year warrant held by Laurus Master Fund, Ltd. to purchase 26,667 shares of common stock at $15.00 per share on, or anytime before, April 26, 2010;

The following five year warrants held by Laurus Master Fund, Ltd. which all expire on November 8, 2008 and contain cashless exercise options, which permits the holder to surrender a portion of the shares issuable upon exercise of the warrant as payment of the exercise price (valuing the surrendered shares at the then current market price):

Quantity	Exercise Price
2,667	$36.60
5,333	$38.10
3,333	$39.75
6,667	$44.55
3,333	$46.05
6,667	$47.70
28,000	

A seven year warrant held by Laurus Master Fund, Ltd. to purchase 133,333 shares of common stock at $17.40 per share on, or anytime before, November 22, 2012. This warrant contains a cashless exercise option, which permits the holder to surrender a portion of the shares issuable upon exercise of the warrant as payment of the exercise price (valuing the surrendered shares at the then current market price); and

Five year warrants held by Security Equity Fund, Mid Cap Value Series, SBL Fund Series V, Security Mid Cap Growth Fund and SBL Fund Series J to purchase 116,667 shares of common stock at $1.00 per share on, or anytime before, March 19, 2009. These warrants contain anti-dilution provisions which automatically adjust the exercise price of the warrant if:

- A) we issue shares of our common stock at a price that is less than the exercise price of the warrants and less than the market price of our common stock at that time, or

- B) we issue securities convertible into shares of common stock and the purchase price for such securities plus the consideration (if any) to be paid upon conversion of such securities into common stock, when divided by the number of common stock shares issuable upon such conversion yields a price per share (the Per Share Consideration) less than the market price of our common stock on the date of issuance of such convertible securities, and the Per Share Consideration is less than the exercise price of the warrant.

In the event the security issuance meets the conditions of A or B, then the exercise price of the warrants will be reduced to the issuance price (in the case of A) or an amount equal to the Per Share Consideration of such convertible securities (in the case of B).

The exercise price and number of shares issuable upon exercise of all of these warrants will automatically be adjusted to reflect any stock split, reverse split, stock dividend or similar event affecting our common stock.

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Delaware Anti-Takeover Law

We are subject to the provisions of Section 203 of the Delaware General Corporation Law. In general, this section prohibits a publicly held Delaware corporation from engaging in a business combination with an interested stockholder for a period of three years after the date of the transaction in which the person becomes an interested stockholder, unless:

- before the date on which the stockholder became an interested stockholder, the corporation s board of directors approved either the business combination or the transaction in which the person became an interested stockholder;

- the stockholder acquires more than 85% of the outstanding voting stock of the corporation, excluding shares held by directors who are officers or held in certain employee stock plans, upon consummation of the transaction in which the stockholder becomes an interested stockholder; or

- the business combination is approved by the board of directors and by two-thirds of the outstanding voting stock of the corporation that is not held by the interested stockholder, at a meeting of the stockholders held on or after the date of the business combination.

An interested stockholder is a person who, together with affiliates and associates, owns, or at any time within the prior three years did own, 15% or more of the corporation s voting stock. Business combinations include, without limitation, mergers, consolidations, stock sales, asset sales or other transactions resulting in a financial benefit to interested stockholders.

Anti-Takeover Effects of Certain Charter and By-Law Provisions

Our charter and by-laws contain provisions relating to corporate governance and to the rights of stockholders. Our by-laws provide that special meetings of stockholders may only be called by our Board of Directors, our Chairman of the Board or our President and shall be called by our Chairman, President or Secretary at the request in writing of stockholders owning at least one-fifth of the outstanding shares of capital stock entitled to vote. In addition, our charter provides that our Board of Directors may authorize the issuance of preferred stock without further stockholder approval and upon those terms and conditions, and having those rights, privileges and preferences, as our Board of Directors may determine.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is LaSalle Bank N.A.

LEGAL -MATTERS

Certain legal matters in connection with the shares of common stock offered hereby have been passed upon for Lime Energy by Schwartz Cooper Chartered of Chicago, Illinois.

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EXPERTS

The financial statements and schedule of Lime Energy Co. (formerly known as Electric City Corp.) and the financial statements of Parke P.A.N.D.A. Corporation included in this Prospectus and in the Registration Statement have been audited by BDO Seidman, LLP, an independent registered public accounting firm, to the extent and for the periods set forth in their reports included herein and in the Registration Statement, and are included in reliance upon such reports given upon the authority of said firm as experts in auditing and accounting.

COMMISSION POSITION ON INDEMNIFICATION FOR SECURITIES ACT LIABILITY

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers and controlling persons pursuant to our charter, bylaws or otherwise, we have been advised that in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim of indemnification against such liabilities (other than the payment by us of expenses incurred or paid by one of our directors, officers or controlling persons in the successful defense of any action, suit or proceeding) is asserted by one of our directors, officers or controlling persons in connection with the securities being registered, we will, unless in the opinion of our counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by us is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

DESCRIPTION OF BUSINESS

Overview/History

We are a developer, manufacturer and integrator of energy saving technologies and provide energy engineering services. Our energy saving products include the eMAC system, which provides intelligent control and continuous monitoring of HVAC and lighting equipment via wireless communication technology to reduce energy usage and improve system reliability. The eMAC technology has been installed in applications in commercial buildings, factories and office structures.

From June 2001 through March 2006 we also provided, through our subsidiary, Great Lakes Controlled Energy Corporation, a Delaware Corporation (Great Lakes), integrated building and environmental control solutions for commercial and industrial facilities.

Until June 1, 2003, we also manufactured custom electrical switchgear through our subsidiary Switchboard Apparatus Inc. (Switchboard)

Until recently we also marketed the EnergySaver, a product that reduces energy usage in ballasted lighting fixtures with minimal lighting level reduction. In conjunction with the EnergySaver we also marketed the GlobalCommander, a system that allows us to link multiple EnergySaver units together and to provide remote communications, measurement and verification of energy savings. The EnergySaver achieves energy savings by taking advantage of certain characteristics of passive ballasts used with fluorescent and high intensity discharge (HID) fixtures, which up until recently were the predominate ballasts used for these types of fixtures. We recently decided to discontinue the active marketing of the EnergySaver because lighting manufacturers have recently begun to discontinue the sale of certain passive ballasts and we believe will discontinue the sale of all passive ballasts in the near future. While there is still a large base of installed passive ballasts in the United States, we believe that most of these passive ballasts will be replaced over the next 5 to 7 years with active or electronic ballasts, which are not compatible with the EnergySaver. Our management decided that rather than continuing to sell a technology to customers that would have a limited useful life, going

forward we would concentrate our sales and marketing efforts on other forms of energy technology and services.

On December 5, 1997, we were initially formed as Electric City LLC, a Delaware limited liability company. On June 5, 1998, we changed from a limited liability company into a corporation by merging Electric City LLC into Electric City Corp., a Delaware corporation.

On June 10, 1998, Electric City issued shares of our common stock with a fair market value of $1,200,272, representing approximately six (6%) percent of Electric City s then issued and outstanding common stock, to the approximately 330 shareholders of Pice Products Corporation (Pice), an inactive, unaffiliated company with minimal assets, pursuant to a merger agreement under which Pice was merged with and into Electric City. The purpose of the merger was to substantially increase the number of our shareholders to facilitate the establishment of a public trading market for our common stock. Trading in our common stock commenced on August 14, 1998 through the OTC Bulletin Board under the trading symbol ECCC .

In May 1999, we purchased most of the assets of Marino Electric, Inc., an entity engaged in the business of designing and manufacturing custom electrical switchgear and distribution panels.

On August 31, 2000 we acquired Switchboard Apparatus.

On June 7, 2001 we acquired Great Lakes.

On June 3, 2003, we entered into an asset purchase agreement with Hoppensteadt Acquisition Corp., whereby Hoppensteadt acquired all of the assets, except for certain receivables and cash, and assumed all of the liabilities, except for bank debt, of Switchboard Apparatus, as of May 31, 2003.

On May 3, 2005, we acquired Maximum Performance Group, Inc. (MPG). MPG is a technology based provider of energy and asset management products and services. MPG manufactures and markets its eMAC line of controllers for HVAC and lighting applications. The eMAC line of controllers provide intelligent control and continuous monitoring of HVAC and lighting equipment via wireless communication technology to reduce energy usage and improve system reliability. MPG has offices in New York City and San Diego, California.

On April 3, 2006, we sold all of the capital stock of Great Lakes Controlled Energy Corporation to its former owners, effective as of March 31, 2006.

On June 29, 2006, we acquired Parke P.A.N.D.A. Corporation (Parke). Parke (now named Parke Industries, LLC) is an energy services provider specializing in the design, engineering and installation of energy efficient lighting upgrades for commercial and industrial users. Parke has 30 employees and is headquartered in Glendora, California, with offices in Danville and Carmel, California.

On September 13, 2006, we changed our name to Lime Energy Co. after merging with a wholly owned subsidiary which was set up solely for the purpose of effecting a name change. On September 22, 2006, our stock began trading on the OTC Bulletin Board under the trading symbol LMEC,

On September 26, 2006, we acquired Kapadia Consulting, Inc. (now named Kapadia Energy Services, Inc.), effective September 27, 2006. Kapadia is an engineering firm that specializes in energy management consulting and energy efficient lighting upgrades for commercial and industrial users. Kapadia has seven employees, is headquartered in Peekskill, New York, and has an office in Ventura, California.

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Products And Services

The Company currently markets products or provides services under two distinct business segments. The energy technology segment includes the development and sale of the eMAC and uMAC product lines. Commencing June 30, 2006, we formed an energy services business segment, which is served by our subsidiaries, Parke Industries, LLC and Kapadia Energy Services, Inc. Parke specializes in the design, engineering and installation of energy efficient lighting upgrades for commercial and industrial users and Kapadia is an engineering consulting firm that specializes in energy efficiency and energy management. See Note 28 to the consolidated financial statements for additional information regarding the segments of our business.

eMAC & uMAC

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

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

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

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

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

Energy Services

Through our wholly owned subsidiary, Parke Industries, LLC, which we acquired at the end of June 2006, we market, design, engineer and install energy efficient lighting upgrades for commercial and industrial users. Parke seeks to determine the best lighting solutions for its customer, taking into consideration factors such as lighting requirements, building environmental conditions, energy costs, available utility and/or tax incentives, and installation, operating and maintenance costs of various lighting alternatives, to select what it believes is the best solution for its customer. It will then remove the existing lighting system and replace it with the new lighting system using its own installation crews. In most situations, Parke s customer will realize paybacks of 12 to 24 months on their lighting system upgrade and very often also improve the overall quality of lighting in their facilities.

Our other recently acquired subsidiary, Kapadia Energy Services, Inc., provides energy engineering services to assist customers in improving their energy efficiency and to better manage their energy costs. Some of the services that Kapadia offers its customers include building energy audits to determine ways to improve energy efficiency, HVAC and boiler system optimization, energy management planning, engineering design review with a view to optimizing energy efficiency and energy rebates, energy project management, and lighting engineering and design. Kapadia will also provide turnkey lighting upgrades in which it will purchase all of the materials and labor for energy efficient lighting upgrades, much like Parke does, except that it uses subcontractors to perform the installation of the new lighting fixtures.

Marketing, Sales and Distribution

The majority of our sales are derived through the efforts of our internal sales force. We currently have 23 employees whose primary responsibility is sales working out of nine sales offices, some of which are home offices. Our sales people have been trained to sell all of our products and services, regardless of the subsidiary that employs them or the office that they work out of. Our sales leads are developed from of a combination of cold calls, referrals and repeat customers.

Customers

During 2006, three customers, Kohl s Department Stores, Modell s Sporting Goods and Automated Building Controls accounted for 14%, 13% and 13% of our consolidated billings, respectively. During 2005, two customers, Kohl s Department Stores and Duane Read Inc., accounted for approximately 37% and 11% of our consolidated billings, respectively and during 2004, sales to five customers Public Energy Solutions, Electric City of New Jersey, Electric City of Pennsylvania, Control Ambiento Y Mantenimiento and the New York Power Authority accounted for 39%, 14%, 12%, 11% and 10% of our consolidated revenue, respectively.

Competition

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

There are many competitors in the energy services business, including small regional lighting retrofit companies, electrical contractors and large national energy service companies. The large national energy service companies tend to market to large national companies and compete for large energy retrofit projects in which lighting is one piece of the total project. Parke focuses on providing lighting retrofit services to the under-served market for small to mid-sized commercial and industrial users (which we believe is under-served) and to niche markets, where installations are more difficult. In these markets Parke sells its services based on the financial return to its customers and differentiates itself through its experience and reputation for quality work and superior service.

Energy engineering services such as those provided by Kapadia are also generally widely available. The certifications held by Kapadia s staff of engineers include: Professional Engineer (PE); Certified Energy Engineer (CEM); and Certified Lighting Efficiency Professional (CLEP). To obtain these certifications an individual must have a high level of experience and demonstrated knowledge of engineering and energy engineering concepts. Kapadia differentiates itself from its competitors through its reputation for quality work and its 26 years of experience as an energy engineering firm. A significant amount of Kapadia s business comes from repeat customers or referrals.

Manufacturing

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

The primary components of the eMAC are sourced from multiple suppliers. We periodically engage in discussions with additional parts suppliers, seeking to ensure lowest cost pricing and reliability of supply.

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

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

Compliance with Environmental Laws

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

Research and Development

The Company, through the day-to-day use of the eMAC and its components and through various testing sites around the country, develops modifications and improvements to our products. Total research and development costs charged to operations were approximately $535,000, $395,000 and $150,000 for the years ended December 31, 2006, 2005 and 2004, respectively.

Intellectual Property

As of December 31, 2006, we had nine issued patents and three patents pending before the U.S. Patent and Trademark Office, as well as foreign patent offices on various aspects of the EnergySaver, eMAC and GlobalCommander technologies. In addition we have registered four trademarks and have one additional trademark registration pending.

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Employees

As of May 8, 2007, we had 74 full time employees and 3 part time employees, of which 13 were management and corporate staff, 9 were engineers, 24 were engaged in sales and marketing and 31 were engaged in customer support and field service.

SELECTED CONSOLIDATED FINANCIAL DATA

The selected financial data set forth below as of December 31, 2006 and 2005 and for each of the three years in the period ended December 31, 2006 are derived from our audited financial statements included with this prospectus. The selected financial data set forth below for the years ended December 31, 2003 and 2002, and the balance sheet data for the three years ended December 31, 2004 have been derived from our audited financial statements and are not included with this prospectus. All of the Statement of Operations data has been revised from the original presentation in the audited financial statements to reflect the Company s Building Control and Automation segment as a discontinued operation, which was sold effective March 31, 2006. The selected financial data for the three month periods ended March 31, 2006 and 2007 has been derived from our unaudited financial statements; 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.

Effective January 1, 2006, we adopted SFAS 123(R). Prior to then we 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. Whereas, as a result of adopting SFAS 123(R) $4,828,955 of share based compensation expense was included in the results for the year ended December 31, 2006.

The historical results presented below are not necessarily indicative of the results to be expected for any future period. The data set forth below should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our financial statements, including the notes thereto, included elsewhere in this prospectus.

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	Year ended December 31,					Three Months Ended March 31,	
	2002	2003	2004	2005	2006	2006	2007
						(unaudited)	(unaudited)
Statement of Operations Data:							
Revenue	$ 3,627,113	$ 2,280,532	$ 733,630	$ 3,693,429	$ 8,143,624	$ 1,146,345	$ 2,528,547
Cost of sales	3,273,150	1,945,554	862,366	3,691,854	6,931,294	908,402	2,156,480
Selling, general and administrative	5,464,950	3,921,121	4,234,239	5,363,503	12,165,700	1,749,003	3,255,911
Amortization of intangibles				471,765	1,210,006	176,912	456,809
Impairment loss	108,000			242,830	1,183,525		
Operating loss	(5,218,987)	(3,586,143)	(4,362,975)	(6,076,523)	(13,346,901)	(1,687,972)	(3,340,653)
Other income (expense)	(32,920)	(354,941)	(626,049)	(544,253)	(3,079,188)	(247,919)	29,714
Loss from continuing operations	(5,251,907)	(3,941,084)	(4,989,024)	(6,620,776)	(16,426,089)	(1,935,180)	(3,310,939)
Income (loss) from discontinued operations	(1,756,020)	(1,540,858)	(170,338)	(251,962)	(21,425)	(21,425)	
Cumulative effect of accounting change	(4,103,872)						
Net loss	(11,111,799)	(5,481,942)	(5,159,362)	(6,872,738)	(16,447,514)	(1,956,605)	(3,310,939)
Preferred Stock Dividends	(4,111,107)	(4,817,917)	(4,639,259)	(1,851,345)	(24,347,725)	(615,290)	
	$ (15,222,906)	$ (10,299,859)	$ (9,798,621)	$ (8,724,083)	$ (40,795,239)	$ (2,571,895)	$ (3,310,939)

Net Loss Available to Common Shareholders							
Basic and diluted loss per common share from continuing operations	$ (4.50)	$ (3.90)	$ (3.62)	$ (2.65)	$ (1.52)	$ (0.74)	$ (0.07)
Basic and diluted loss per common share	(7.32)	(4.58)	(3.68)	(2.73)	(1.52)	(0.75)	(0.07)
Weighted average common shares outstanding *(1)*	2,080,878	2,250,766	2,660,093	3,190,664	26,908,608	3,410,455	50,206,673
Balance Sheet Data:							
Cash and cash equivalents	$ 1,555,904	$ 2,467,023	$ 1,789,808	$ 4,229,150	$ 4,663,618	$ 1,898,775	$ 2,976,176
Working capital (deficiency)	3,546,270	2,050,157	263,304	646,483	3,606,419	(1,419,653)	1,758,269
Total assets	8,908,551	7,353,627	6,479,320	17,098,974	25,396,865	14,089,427	23,541,107
Long-term debt, including current portion	1,089,791	1,348,645	1,230,353	4,980,032	567,091	4,928,265	587,616
Total stockholders equity	4,284,291	3,040,932	1,780,271	4,377,637	18,184,756	2,371,899	16,492,633

(1) Adjusted for 1 for 15 reverse stock split effected January 23, 2007

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

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

We have a limited operating history. All risks inherent in an inexperienced enterprise are inherent in our business.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amount of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of our financial statements. Actual results may differ from these estimates under different assumptions or conditions. Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and potentially result in materially different results under different assumptions and conditions. We believe that our critical accounting policies are limited to those described below. For a detailed discussion on the application of these and other accounting policies, see Note 4 in the notes to the consolidated financial statements.

Use of Estimates

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

Revenue Recognition

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

Our MPG subsidiary often bundles contracts to provide monitoring services and web access with the sale of its eMAC hardware. As a result, these sales are considered to be contracts with multiple deliverables which at the time the hardware is delivered and installed includes undelivered services essential to the functionality of the product. Accordingly, we defer the revenue for the product and services and the cost of the equipment and installation and recognize them over the term of the monitoring contract. The monitoring contracts vary in length from 1 month to 5 years.

Profit Recognition on Long-Term Contracts

We account for revenue on most of our long-term contracts on the completed contract method, whereby revenue is recognized once the project is substantially complete. However, we account for revenues on some long-term contracts under the percentage of completion method in conjunction with the cost-to-cost method of measuring the extent of progress toward completion. Any anticipated losses on contracts are charged to operations as soon as they are determinable.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. The allowance is largely based upon specific knowledge of customers from whom collection is determined to be doubtful and our historical collection experience with such customers. If the financial condition of our customers or the economic environment in which they operate were to deteriorate, resulting in an inability to make payments, or if our estimates of certain customers ability to pay are incorrect, additional allowances may be required. During 2006, we increased our allowance by $105,000 and wrote-off receivables of $62,000. As of December 31, 2006, our allowance for doubtful accounts was approximately $366,000, or 11.5% of the outstanding accounts receivable, of which approximately $342,000 was associated with our EnergySaver business.

Impairment of Long-Lived Assets

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

During 2006, we determined that our VNPP (Virtual Negawatt Power Plan) Asset was completely impaired and recorded an impairment charge of $1,183,525 to reduce the carrying value of the asset to zero. Please refer to Note 10 in the accompanying consolidated financial statements for further information regarding this impairment charge.

Goodwill

We have made acquisitions in the past that included a significant amount of goodwill and other intangible assets. Under generally accepted accounting principles in effect through December 31, 2001, these intangible assets were amortized over their estimated useful lives, and were tested periodically to determine if they were recoverable from operating earnings on an undiscounted basis over their useful lives. Effective in 2002, goodwill is no longer amortized but is subject to an annual (or under certain circumstances more frequent) impairment test based on its estimated fair value. Estimated fair value is less than value based on undiscounted operating earnings because fair value estimates include a discount factor in valuing future cash flows. There are many assumptions and estimates underlying the determination of an impairment loss, including economic and competitive conditions, operating costs and efficiencies. Another estimate using different, but still reasonable, assumptions could produce a significantly different result. In February 2006 we signed a non-binding letter of intent to sell Great Lakes Controlled Energy. To determine if our goodwill would be impaired as a result of the expected sale, we compared the carrying value of the related reporting unit to the expected sale

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price of the business and determined that the goodwill was impaired. As a result we recorded an impairment loss as of December 31, 2005 of $242,830.

At the end of 2006 we completed an assessment of the goodwill associated with the acquisition of Maximum Performance Group, Inc. and determined fair value of the related reporting unit exceeded the carrying value, indicating that the goodwill was not impaired.

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

Stock-based Compensation

We have a stock incentive plan that provides for stock-based employee compensation, including the granting of stock options and shares of restricted stock, to certain key employees. The plan is more fully described in Note 26 to our financial statements. Effective January 1, 2006, we adopted Statement of Financial Accounting Standards No. 123(R), Share-based Payment (SFAS 123(R)), which requires, among other things, that compensation expense be recognized for employee stock options. Prior to the adoption of SFAS 123(R), we accounted for stock compensation using the recognition and measurement principles of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. Under that method, compensation expense was recorded only if the current market price of the underlying stock on the date of grant exceeded the option exercise price. Since stock options are granted at exercise prices that are greater than or equal the market value of the underlying common stock on the date of grant under our stock incentive plan, no compensation expense related to stock options was recorded in the Consolidated Statements of Operations prior to January 1, 2006. During 2006, we recognized $4,828,955 of stock compensation expense.

Material Trends and Uncertainties

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

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

Decision to Discontinue the Active Marketing of the EnergySaver. At the end of 2006, we decided to discontinue the active marketing of the EnergySaver and GlobalCommander and write-off most of our remaining inventory of EnergySaver parts due to changes in lighting technology which we believe will diminish the future prospects for the product. The Company was founded in 1997 for the purpose of manufacturing and marketing the EnergySaver and the EnergySaver has been a material source of revenue for the Company for the last nine years, with the product line contributing approximately 74% and 21% of our consolidated revenue in 2005 and 2006, respectively. We will continue to accept orders for the EnergySaver from former customers and those dealers who continue to market the product, but we do not expect sales of this product line to represent a

significant portion of our revenue in future periods. We have acquired three companies within the last two years, Maximum Performance Group, Inc., Parke P.A.N.D.A. Corporation and Kapadia Consulting, Inc. which we believe will provide most, if not all of the Company s revenue and earnings in future periods. As a result of these changes we will no longer be manufacturing any of our own products (the eMAC is manufactured for us by a contract manufacturer) and we believe a significant portion of our future revenue will be derived from the sale of services. These decisions will fundamentally change the nature of our business, though we remain focused on providing energy conservation technologies and services.

Results of Operations

Our revenues reflect the sale of our products and services, net of allowances for returns and other adjustments. Lime Energy s sales are generated from the sale of products and services, primarily in the U.S. Three customers collectively accounted for approximately 40% of our consolidated billings during the year ended December 31, 2006, while one customer accounted for approximately 30% of our consolidated billings during the year ended December 31, 2005.

Our cost of goods sold consists primarily of materials and labor. Also included in our cost of goods sold are freight, the costs of operating our manufacturing facility, charges from the contract manufacturer that manufactures the eMAC line of controllers, charges from outside contractors used to install our product in our customers facilities, depreciation, and charges for potential future warranty claims and royalty costs related to EnergySaver sales.

Sales and gross profits depend in part on the volume and mix of products sold during any given period. Generally our proprietary products have a higher gross profit margin than products and services that we purchase and resell.

A portion of our operating expense is relatively fixed, such as the cost of our facilities and certain support personnel. Accordingly, an increase in the volume of sales will generally result in an increase to our gross margins since these fixed expenses do not increase proportionately with sales.

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

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

Interest expense includes the costs and expenses associated with the mortgage on our headquarters building and various vehicle loans, all as reflected on our current and prior financial statements. Also included in interest expense for 2006 are the costs and expenses associated with working capital indebtedness and two convertible term loans, as well as amortization of the debt discount which includes the fair value of the warrants issued to Laurus Master Fund Ltd. (Laurus), and the value of beneficial conversion feature attributed to the convertible term loans, as well as amortization of deferred financing costs related to the credit facility with Laurus. The working capital line and convertible term loans were retired in full in June 2006.

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Three Months Ended March 31, 2007 Compared to Three Months Ended March 31, 2006.

Our total revenue for the three-month period ended March 31, 2007 increased $1,382,202 or 121% to $2,528,547 as compared to $1,146,345 for the three month period ended March 31, 2006. Revenue from our Energy Services segment, which was created through the acquisitions of Parke on June 30, 2006 and Kapadia on September 27, 2006, and the creation of Lime Midwest on January 1, 2007 was responsible for $1,704,843 of the increase. This increase was offset by lower sales in our Energy Technology segment due to our decision in late 2006 to discontinue the active marketing of our EnergySaver line of lighting controllers. We expect to see continued increases in revenue in future periods as the result of the addition of Parke, Kapadia and Lime Midwest and to recent additions to our sales force.

Cost of sales for the three-month period ended March 31, 2007 increased $1,248,078, or 137%, to $2,156,480 from $908,402 for the three-month period ended March 31, 2006. The increase in our cost of sales was related to the increase in sales associated with the addition of Parke and Kapadia. Gross profit for the first quarter of 2006 increased $134,124 to $372,067 from $237,943 in the first quarter of 2006, but the gross margin declined from 21% in 2006 to 15% in 2007 due to the mix of business realized during the period. We believe that the gross margin will increase in future periods with increases in revenue due to the fixed nature of some of our costs of sales.

SG&A for the three-month period ended March 31, 2007 increased $1,506,908, or 86% to $3,255,911 from $1,749,003 for the three-month period ended March 31, 2006. An increase in share based compensation was responsible for $603,031 or 39% of the increase in SG&A during the first quarter of 2007. The addition of Parke and Kapadia was responsible for approximately $375,000 of the increase. The first quarter 2007 SG&A also included a $268,125 penalty for failing to register the shares issued as part of the June 2006 PIPE transaction as required under the transaction documents. The shares were registered on February 14, 2007 at which time the penalty stopped accruing. The penalty was paid through the issuance of shares of our common stock in February 2007 (see note 11(b) for additional information regarding the registration penalty). Also during the first quarter of 2007, we incurred non-cash charges totaling $250,500 related to the issuance of warrants to consultants as partial consideration for their services, no such charges were incurred during the first quarter of 2006. The balance of the increase in SG&A was due to increases in our sales force. We expect our SG&A to remain relatively unchanged for the balance of 2007 from the level realized during the first quarter, except that future periods will not include registration penalties.

Other income/(expense) for the three-month period ending March 31st declined from expense of $247,208 in 2006 to income of $29,714 in 2007. Interest expense declined $251,521 to $16,398 during the three months ended March 31, 2007 from $267,919 for the three months ended March 31, 2006. We repaid our revolving line of credit and retired our two term loan in June 2006, which was the primary contributor to the decline in our interest expense. Interest income increased $25,401 to $46,112 for the first quarter of 2007 from $20,711 earned in the same period of 2006. The increase in investment income was the result of higher average invested cash balances and higher interest rates.

Dividend expense declined $615,290 to $0 for the quarter ended March 31, 2007, as compared to $615,290 for the quarter ended March 31, 2006. In June 2006, all of the Series E Convertible Preferred Stock was converted to common stock, thus there was no dividend expense during the first quarter of 2007.

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

Revenue. Our revenue increased $4,450,195, or 120% to $8,143,624 during the year ended December 31, 2006, as compared to $3,693,429 for the year ended December 31, 2005. Revenue generated by our Energy Services segment was responsible for $3,302,014 or 74% of the increase in our revenue for 2006. The Energy Services segment was created in 2006 through the acquisition of Parke on June 29, 2006 and Kapadia on September 27, 2006. The balance of the increase was related to increased revenue associated with the eMAC,

partially offset by lower EnergySaver sales. The increase in the eMAC revenue was due to the inclusion of a full year of results for MPG (MPG was acquired effective May 3, 2005) and higher unit sales. We expect to see steady growth in revenue in future periods from both the Energy Services segment and MPG. This growth in revenue will be partially offset by declining EnergySaver sales due to our recent decision to discontinue the active marketing of this product line.

Gross Profit. Our gross profit increased $1,210,755 to $1,212,330 for the year ended December 31, 2006, as compared to $1,575 for the year ended December 31, 2005, while our gross profit margin increased to 14.89% for 2006 as compared to 0.04% earned in 2005. Included in the 2006 cost of sales was a $568,577 one time charge to write-off most of our EnergySaver inventory due to our decision to terminate the active marketing of this product. Adjusting for this charge, our gross profit for 2006 was $1,780,907, or 21.87% of sales. The increase in gross profit from 2005 was primarily attributable to increased sales of the eMAC and the acquisition of Parke on June 29, 2006. The 2006 cost of goods sold includes $296,953 of share based compensation expense as a result of our adoption of SFAS 123(R) on January 1, 2006. No share based compensation was included in the 2005 cost of goods sold. We believe that a full year of contributions from Parke and Kapadia in addition to continued revenue increases at MPG will contribute to continued improvements in our gross margin in future periods.

SG&A Expenses and Amortization of Intangibles. Our selling, general and administrative expense increased $6,802,197 or 127% to $12,165,700 for 2006, as compared to $5,363,503 for 2005. Approximately 67% or $4,532,001 of the increase in the 2006 SG&A was related to our adoption of SFAS 123(R) on January 1, 2006. SFAS 123(R) requires that we record stock compensation expense for stock options granted to our employees and directors. This non-cash expense is equal to the grant date fair market value of these options, amortized over the options vesting periods. We did not record stock compensation expense in 2005. Also contributing to the increase in SG&A expense was $531,000 in penalties resulting from our inability to have the Laurus registration and the June PIPE registration declared effective within the timeframes required under the related documents, an increase in legal expenses of approximately $200,000, a $140,000 increase in research and development expense related to enhancements to the eMAC, approximately $100,000 in higher than normal accounting expenses related to the various registration statements filed during 2006, approximately $660,000 of SG&A expense resulting from the inclusion of Parke and Kapadia for portions of 2006 and approximately $680,000 from the inclusion of MPG for the full year. Elimination of those expenses which are non-recurring changes is expected to result in a decrease in SG&A during 2007.

Impairment Loss. As is more fully explained in Note 10 to the financial statements, during the quarter ended September 30, 2006, we completed a preliminary impairment analysis and determined that the carrying value of the ComEd VNPP (Virtual Negawatt Power Plan) asset exceeded its fair value by $760,488. In order to reduce the carrying value to the fair value we recorded a non-cash impairment charge of $760,488 in September 2006. During the fourth quarter of 2006 we updated our analysis based on new information and revised assumptions and determined that the asset was completely impaired. As a result we reduced the carrying value of the asset to $0 and recorded an additional impairment charge of $423,037 in December 2006.

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

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

Contractual interest expense (the interest on outstanding loan balances) increased $86,662 or 31% to $364,239 during 2006 from $277,577 in 2005. The increase in contractual interest was the result of higher average outstanding balances, due in part to the issuance of the $5 million term loan in November 2005 (which was repaid in June 2006), and higher average interest rates. Amortization of the deferred issuance costs and the debt discount related to the Laurus revolver and convertible term loans, which is included in interest expense, increased $1,010,557 to $1,175,970 during 2006 from $165,413 during 2005. With the early repayment of all of the Laurus loans in June 2006, we were required to recognize as interest expense the remaining unamortized balances of the capitalized issuance costs and the debt discount of $1,009,277. The balance of the increase in amortization expense was related to the amortization of deferred issuances costs associated with the $5 million term loan issued in November 2005. 2006 interest expense also includes prepayment penalties of $516,071 for the early repayment of the Laurus term loans and $266,225 for the cost of terminating the obligation to pay Laurus a portion of the cash flows generated by certain VNPP projects for the next five years. Upon the closing of the PIPE Transaction and repayment of the term loans in June 2006, Laurus elected to convert the outstanding balance on the revolving note into shares of our common stock. The revolving note contained antidilution provisions which automatically adjusted the conversion price of the note to $1.00 per share the price at which we issued shares as part of the PIPE Transaction. Laurus would have received 59,902 shares of common stock upon conversion of the revolving note utilizing the conversion price prior to the adjustment, but as a result of this adjustment it received 943,455 shares. The market value of the 883,553 additional shares it received as a result of the adjustment was recorded as interest expense in the amount of $950,865.

During April 2005 we issued a warrant to purchase 400,000 shares of our common stock to Laurus in exchange for its consent to a private equity issuance and the acquisition of MPG, as well as waiving its right to adjust the conversion price on its convertible term note and convertible revolving note. The warrant was valued at $160,000 using a modified Black-Scholes option pricing model and charged to interest expense during the period.

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

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

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

We have issued certain securities in the past that contain anti-dilution provisions (commonly referred to as ratchets) which automatically adjust the exercise or conversion price of the security if we issue any new equity security, or securities convertible into equity, at a price below the exercise or conversion price of the security with the anti-dilution provision. Primarily as a result of our declining stock price, we had three instances during 2006 where we had to adjust the exercise price or the conversion price on one or more securities, each of which resulted in us recording a charge for a non-cash deemed dividend. In January we issued stock options to our new CEO at the then market price of $9.30 per share, which was less than the $13.80 exercise price on a warrant held by one of our former Series E Preferred stock holders. Adjusting the exercise price of this warrant resulted in a non-cash deemed dividend of $266,390.

On June 29, 2006, we issued shares in the PIPE Transaction at $1.00 per share (as discussed in Note 21 to our financial statements). The issuance price of the securities issued in this transaction was less than the conversion price on our Series E Convertible Preferred stock, which contained anti-dilution provisions. Prior to the anti-dilution adjustment the holders of the Series E Convertible Preferred stock would have been entitled to 1,574,027 shares of common stock on conversion, whereas after the adjustment they were entitled to 21,648,346 shares of common stock on conversion. The market value of the additional 20,074,319 shares receivable upon conversion was recorded as a non-cash deemed dividend in the amount of $23,085,467 on June 29, 2006.

In addition, a number of the outstanding common stock warrants, most of which were held by former holders of our Series E Convertible Preferred Stock, also contained similar anti-dilution provisions. Prior to the June 2006 PIPE Transaction the exercise price on these warrants ranged from $13.50 per share to $15.00 per share. The issuance of common stock in the June 2006 PIPE Transaction caused the exercise price on these warrants to automatically be reduced to $1.00 per share. We compared the value of the warrants with the old exercise price to the value of the warrants with the reduced exercise price, through the use of a modified Black-Sholes option pricing model, and determined that the reduction in the exercise price had increased the value of the warrants by $297,868. We recognized the expense as a deemed dividend by offsetting charges and credits to additional paid-in capital, without any effect on total stockholders equity.

On April 28, 2005, in exchange for $5,625,000 in gross proceeds, we issued a package of securities to five institutional investors. The package of securities included 416,667 shares of our common stock and 42 month warrants to purchase 208,333 additional shares of common stock at $15.75 per share. The issuance of these shares caused the exercise price of certain warrants with anti-dilution provisions to automatically adjust to $13.50 per share. We compared the value of the warrants with the old exercise price to the value of the warrants with the reduced exercise price, through the use of a modified Black-Sholes option pricing model, and determined that the reduction in the exercise price had increased the value of the warrants by $484,445. Since these warrants were issued as part of a securities offering the increase in value is considered to be a deemed dividend to the security holders. We recorded the deemed dividend by offsetting charges and credits to additional paid-in capital, without any effect on total stockholders equity.

Twelve-Month Period Ended December 31, 2005 Compared With the Twelve-Month Period Ended December 31, 2004

Revenue. Our revenue increased $2,959,799 to $3,693,429 during the year ended December 31, 2005 from $733,630 during the year ended December 31, 2004. Approximately $950,000 or 39% of the increase was due to the acquisition of Maximum Performance Group in May 2005. EnergySaver related sales increased approximately $1,700,000 during 2005 over the year earlier period as the result of increased EnergySaver sales. Unit sales of EnergySavers increased 198% from 67 units in 2004 to 200 units in 2005. One customer was responsible for a significant portion of this increase. Approximately $325,000 of the increase in revenue was due to a short term utility consulting project completed in May 2005.

Gross Profit. Our consolidated gross profit increased $130,311 in 2005 to $1,575 from a loss of $128,736 in 2004. The increase in gross profit was due to a consulting assignment completed in May 2005 by the Energy Technology segment and to improved margins on EnergySaver sales primarily as the result of increased volume.

SG&A Expenses and Amortization of Intangibles. Selling, general and administrative expenses increased $1,129,263 or 27% to $5,363,503 during 2005 from $4,234,240 in 2004. Inclusion of eight months of expense from MPG was responsible for approximately $1,365,000 of the 2005 SG&A expense.

Impairment Loss. We incurred an impairment loss of $242,830 during 2005 related to the reduction in carrying value of goodwill associated with the acquisition of Great Lakes Controlled Energy. In February 2006 we signed a letter of intent to sell Great Lakes Controlled Energy and we sold the Company effective March 31, 2006. At the end of 2005 we compared the carrying value of the goodwill related to Great Lakes to the expected sale price of the business and determined that the goodwill was impaired. As a result, we recorded an impairment loss as of December 31, 2005 of $242,830. There was no impairment loss recorded in 2004.

Other Non-Operating Income (Expense). Other non-operating expense is comprised of interest expense and interest income. Interest expense declined $45,564 to $602,990 during 2005 from $648,554 during 2004. The components of interest expense for the years ended December 31, 2005 and 2004 are as follows:

Twelve months ended December 31,	**2005**	**2004**
Contractual interest	**$277,577**	**$ 74,117**
Amortization of deferred issuance costs and debt discount	**165,413**	**574,437**
Value of warrant	**160,000**	
Total Interest Expense	**$602,990**	**$648,554**

Amortization of the deferred issuance costs and debt discount related to the Laurus revolver and convertible term loans, which are included in interest expense, declined $409,024 to $165,413 for 2005 from $574,437 during 2004. The deferred issuance costs and debt discount was being amortized using the effective interest method, thus decline as the outstanding balance on the related term loan is repaid or converted. During January 2004, Laurus converted a portion of its term loan resulting in accelerated recognition of $193,000 in

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amortization expense. No such conversions occurred during 2005. Other interest expense increased $203,720 during 2005 primarily as a result of borrowings under the revolver, a new $5,000,000 term loan entered into in late November 2005, and higher interest rates. There were no borrowings under the revolver during 2004. During the second quarter of 2005 we issued a 5 year warrant to purchase 26,667 shares of our common stock at $15.00 per share to Laurus in exchange for its consent and waiver to permit us to complete a private placement of our common stock and to acquire MPG. This warrant was valued at $160,000 using a modified Black-Sholes option pricing model and the value was charged to interest expense during the period.

Interest income increased $36,232 to $58,737 during 2005 from $22,505 earned in 2004. The increase in interest income was due to higher average invested cash balances and increases in the interest rates paid on the invested balances.

Preferred Stock Dividends. The dividend expense recognized during 2005 and 2004 was comprised of the following:

Year ended December 31,	**2005**	**2004**
Accrual of dividend on Series A Convertible Preferred	**$**	**$ 540,705**
Accrual of Series C Preferred dividend		**53,206**
Accrual of Series D Preferred dividend		**35,932**
Accrual of Series E Preferred dividend	**1,366,900**	**1,006,937**
Deemed dividend associated with beneficial conversion price on shares issuable in satisfaction preferred dividends		**1,127,021**
Deemed dividend associated with the redemption and exchange of outstanding preferred stock		**1,860,458**
Deemed dividend associated with change in the expiration date of warrants to purchase shares of preferred stock		**15,000**
Deemed dividend associated with change in the exercise price of warrants to purchase shares of common stock	**484,455**	
Total	**$1,851,345**	**$4,639,259**

Our dividend expense for 2005 declined $2,787,914 or 60% to $1,851,345 from $4,639,259 in 2004. We accrued dividends of $1,366,900 and $1,636,780 on our Convertible Preferred Stock during 2005 and 2004, respectively. This decline in accrued dividends was the result of the reduction in the number of preferred shares outstanding and a reduction in the dividend rate that resulted from the redemption and exchange effected in March 2004. The dividends accrued during 2005 and 2004 were satisfied through the issuance of 13,669 shares of preferred stock and 16,368 shares of preferred stock, respectively. We were required to recognize a non-cash deemed dividend of $1,127,021 during 2004 because the conversion price on these dividend shares was lower than the market price of our common stock on the date of issue.

On April 28, 2005, in exchange for $5,625,000 in gross proceeds, we issued a package of securities to five institutional investors. The package of securities included 416,667 shares of our common stock and 42 month warrants to purchase 208,333 additional shares of common stock at $15.75 per share. The issuance of these shares caused the exercise price of certain warrants with anti-dilution provisions to automatically adjust to $13.50 per share. We compared the value of the warrants with the old exercise price to the value of the warrants with the reduced exercise price, through the use of a modified Black-Sholes option pricing model, and determined that the reduction in the exercise price had increased the value of the warrants by $484,445. Since these warrants were issued as part of a securities offering the increase in value is considered to be a deemed dividend to the security holders. We recorded the deemed dividend by offsetting charges and credits to additional paid-in capital, without any effect on total stockholders equity.

As part of the redemption and exchange completed in March 2004, shares of our Series A, Series C and Series D convertible preferred stock were exchanged for shares of the new Series E preferred stock at the rate of 10 shares of old preferred for each share of new Series E preferred stock. Additionally, each share of old preferred stock was convertible into 0.667 shares of common stock, whereas each share of new Series E convertible preferred stock was convertible into 6.67 shares of common stock. Despite the fact that we believe the redemption and exchange transaction was favorable for the Company and its common stockholders (see Note 23(c) to the financial statements), we were required to record a non-cash deemed dividend on the transaction of $1,860,458. For accounting purposes the transaction was viewed as a redemption for cash and shares of Series E Preferred stock. The non-cash deemed dividend was determined by comparing the fair value of the consideration given (the cash and the market value of the Series E Preferred) to the carrying value of the old preferred stock that was redeemed. The fair value of the consideration given exceeded the carrying value of the old preferred primarily due to the fact that the market price of our common stock was higher on the day the redemption and exchange transaction closed than it was when the shares of the old preferred stock were originally issued.

We also incurred a $15,000 deemed dividend during 2004 when we agreed to extend the expiration date on warrants to purchase shares of our Series E Convertible Preferred stock from September 30, 2004 to December 31, 2004. We agreed to extend these warrants to permit holders who participated in the redemption and exchange more time to exercise their warrants without violating the short swing trading rules of section 16(b) of the Securities Act of 1934 or our insider trading policy which prohibits the trading of our securities during certain blackout periods prior to the filing of our financial statements.

Liquidity and Capital Resources

As of March 31, 2007, we had cash and cash equivalents of $2,976,176 compared to $4,663,618 on December 31, 2006. Our debt obligations as of March 31, 2007 consisted of a mortgage of $517,000 on our facility in Elk Grove Village Illinois, a demand note payable to a former shareholder of MPG of $150,000, and various vehicle loans totaling $70,616.

Our principal cash requirements are for operating expenses, including employee costs, the costs related to research and development, advertising costs, the cost of outside services including those providing accounting, legal, engineering and consulting services, rent, the funding of inventory and accounts receivable, and capital expenditures and the costs of servicing our outstanding debt. We have financed our operations since inception through the private placement of our common stock, preferred stock and various secured and unsecured loans.

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

Three months ended March 31,	2007	2006
Net cash used in operating activities	**$(1,605,806)**	**$(1,242,280)**
Net cash used in investing activities	**(56,800)**	**(93,290)**
Net cash used in by financing activities	**(24,836)**	**(994,805)**
Net Decrease in Cash and Cash Equivalents	**(1,687,442)**	**(2,330,375)**
Cash and Cash Equivalents, at beginning of period	**4,663,618**	**4,229,150**
Cash and Cash Equivalents, at end of period	**$ 2,976,176**	**$ 1,898,775**

Three Months Ended March 31, 2007 Compared to Three Months Ended March 31, 2006

Net cash decreased $1,687,442 during the first three months of 2007 as compared to decreasing $2,330,375 during the same period in 2006.

Operating Activities

Cash consumed by operating activities increased $363,526, or 29%, to $1,605,806 during the first three months of 2007 as compared to consuming $1,242,280 during the same period in 2006. Cash used to fund the net loss before changes in working capital, decreased $345,576 or 24%, to $1,106,530 during the first three months of 2007 from $1,452,106 during the same period in 2006. During the first quarter of 2007 we satisfied liquidated damages for failing to register the shares issued in the June 2006 PIPE transaction through the issuance of shares of our common stock. Included in this payment were penalties accrued during 2006 totaling $345,583. After adjusting for the satisfaction of these accrued penalties, the cash used to fund the net loss before changes in working capital was $1,452,113 for the first quarter of 2007, an increase of $7 from the amount consumed during the first quarter of 2006. The higher gross profit and reduced interest expense realized during the first quarter of 2007 were offset by increases in SG&A.

Changes in working capital consumed cash of $499,276 during the first three months of 2007 as compared to generating cash of $209,825 during the first three months of 2006. Improvements in accounts receivable turnover and increases in accounts payable and customer deposits during the first quarter of 2007 were offset by an increase in inventory and a reduction in accrued expenses. During the first quarter of 2007 we purchased and paid for $200,000 in material for a job we began in March to take advantage of discounts offered by the supplier, contributing to the increase in our inventory during the period. Accounts payable increased due to the increase in business activity and accrued expenses declined primarily as a result of our satisfaction of the accrued registration penalty during the quarter through the issuance of shares of our common stock.

We believe that the cash used to fund the net loss will decline throughout the balance of 2007 with increases in sales and profitability, but that this will be partially offset by higher working capital requirements.

Investing Activities

Cash used in investing activities decreased $36,490 to $56,800 during the three-month period ending March 31, 2007, from $93,290 for the same period in 2006. Effective March 31, 2007, we sold all of the stock of Great Lakes Controlled Energy Corporation to the former owners of the company. Great Lakes cash balances of $83,586 were transferred with the sale of the company. Purchases of property and equipment increased $47,096 largely due to the purchase of vehicles used for transporting material to job sites and for the purchase of computers which replaced fully depreciated equipment.

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Financing Activities

Financing activities consumed cash of $24,836 during the first quarter of 2007 as compared to consuming $994,805 during the first quarter of 2006. During the first quarter of 2007 we borrowed $33,228 to fund the purchase of a vehicle, made scheduled payments of $9,000 on our mortgage and $3,703 on our vehicle loans. We also incurred $45,361 in legal and accounting expense related to the registration of the shares issued as part of the June 2006 PIPE transaction. During January 2006, we were required to pay down $871,752 on our revolving line of credit to bring it into compliance with our borrowing base. We also made scheduled principal payments of $123,053 on our convertible term loan, mortgage, vehicle loans and capitalized leases during the quarter.

LIQUIDITY

Our primary sources of liquidity are our available cash reserves. As of March 31, 2007, our cash balance was $2,976,176, and during the first week of April 2007 we received $2,996,632 in proceeds from the rights offering which closed on March 30, 2007.

During fiscal 2006, operating activities consumed cash of $6.3 million. We believe that changes we implemented in 2006, including the repayment of most of our outstanding debt, the discontinuation of the active marketing of the EnergySaver prospectively for 2007, the acquisitions of Parke and Kapadia and various personnel changes will lead to a reduction in our operating loss and the cash consumed in operating activities before changes in working capital.

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 and timing of future revenues, working capital requirements, the level and amount of product marketing and sales efforts and the magnitude of research and development, among other things.

During the last six fiscal years we have raised net proceeds of approximately $62 million through the issuance of shares of our common and preferred stock and notes, which has allowed us acquire companies such as MPG, Parke and Kapadia and to continue to execute our business plan. Most of these funds have been consumed by operating activities, either to fund our losses or for working capital requirements. In an attempt to move the Company to a position where it can start to generate positive cash flow, our management has set the following key strategies for cash flow improvement in 2007:

Focus on increasing the sales of our products and services. During 2006 we were able to increase our revenue by 120%, and we saw our gross margin increase from $1,575 to $1,780,907 (excluding the write-off of obsolete inventory). Although the increase in our gross margin was more than offset by increases in SG&A, much of this increase in SG&A was the result of non-cash charges (share based compensation and amortization of intangibles) or expenses we do not expect to recur (asset write-offs, registration penalties, legal and accounting costs). We believe that we have the infrastructure in place to support revenue of two to three times what we achieved in 2006, without the need to significantly increase our SG&A expense in 2007. If we can achieve this, we believe we will significantly reduce or eliminate the cash consumed for operating activities, before changes in working capital. We have taken several important steps toward increasing our revenue, starting with the acquisitions of Parke and Kapadia. Dan Parke, our new President and COO, is an experienced manager who has spent the last nine months focused on integrating and training our sales and marketing staff. We have increased the number of people involved in sales and marketing from 9 at the end of 2005 to 23 currently, all but five of which are new. We have also invested a great deal of time and money in training these sales people how to sell our products. We believe that some of these efforts to increase sales are beginning to have their desired affect.

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Expand our sales through internal product development, acquisitions and/or opening new offices. We believe there are opportunities for further growth through geographic and product line expansion. We can expand geographically by opening new offices, hiring additional sales people and/or by acquiring established businesses in regions of the country we do not currently serve. We can add to our product line through internal product development, partnerships, joint ventures, licensing agreements and/or by acquiring business with products, services and/or expertise that we do not currently have. An expanded product line would allow us to offer additional energy solutions to our customers, thereby increasing the value of each customer relationship.

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

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

If we raise additional capital in future periods (which may require stockholder approval), our existing stockholders will likely experience dilution of their present equity ownership position and voting rights, depending upon the number of shares issued and the terms and conditions of the issuance. Any new equity securities will likely have rights, preferences or privileges senior to those of our common stock.

Contractual Obligations

Our obligations to make future payments under contracts as of December 31, 2006 are as follows:

	Payments due by period				
Contractual Obligations	**Total**	**Less than 1 year**	**1 to 3 years**	**3 to 5 years**	**More than 5 years**
Long-term debt *(1)*	**$ 572,382**	**$ 48,128**	**$ 506,896**	**$ 13,886**	**$ 3,472**
Capital leases	**373**	**373**			
Operating leases	**422,438**	**140,803**	**228,321**	**53,314**	
Employment agreements	**2,187,500**	**1,290,000**	**897,500**		
Total	**$ 3,182,693**	**$ 1,479,304**	**$ 1,632,717**	**$ 67,200**	**$ 3,472**

(1) Excludes floating rate interest on the long-term debt. Interest payments required during 2007, based on current interest rates are projected to be $47,000.

Recent Accounting Pronouncements

In July 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 provides guidance on the financial statement recognition and measurement of a tax position taken or expected to be taken in a return. FIN 48 requires that companies recognize

in their financial statements the impact of a tax position if that position more likely than not will be sustained on an audit, based on the technical merits of the position. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transition provisions. We adopted FIN 48 on January 1, 2007. No adjustment to our retained earnings was made as a result of the implementation of FIN 48.

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

We have recorded a valuation allowance equaling the deferred tax asset due to the uncertainty of its realization in the future. At December 31, 2006, we had U.S. federal net operating loss carryforwards available to offset future taxable income of approximately $64 million, which expire in the years 2018 through 2026. Under section 382 of the Internal Revenue Code of 1986, as amended, the utilization of US net operating loss carryforwards may be limited under the change in stock ownership rules of the IRC. As a result of ownership changes as defined by Section 382, which have occurred at various points in our history, we believe utilization of our net operating loss carryforwards will likely be significantly limited under certain circumstances.

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

Quantitative and Qualitative Disclosures About Market Risk

The only significant exposure we have to market risk is the risk of changes in market interest rates. The interest rate on our mortgage is variable and changes with changes in the prime rate. The interest rate on the mortgage is equal to the prime rate plus 1/2%. As of April 30, 2006, the prime rate was 8.25%. If the prime rate were to increase 1 percentage point, the aggregate annual interest cost on the mortgage would increase by approximately $5,100.

DESCRIPTION OF PROPERTY

Our headquarters are located at 1280 Landmeier Road in Elk Grove Village, Illinois. This facility is approximately 13,000 square feet and houses the corporate headquarters and a warehouse. We acquired this facility in August 1998 with a combination of stock and cash. The cash portion of the purchase price was financed through a mortgage on the building. The mortgage was refinanced in December 2006, bears interest at the rate of prime (currently 8.25%) plus 0.5%, and is payable in monthly installments of $3,000 plus interest, until a final balloon payment which is due on February 2008. There is no penalty for prepayment of the mortgage. As of March 2, 2007, the outstanding principal amount of the mortgage was $517,000.

On May 3, 2005, we acquired Maximum Performance Group, Inc (MPG). MPG currently leases a 3,100 square foot office in San Diego, California and a 2,800 square foot office in New York City. The San Diego lease expired during 2005 and is currently operating on a month to month basis with a 90 day termination notice requirement. The New York office lease has a term of five years and will expire in September 2010.

Our headquarters are located at 1280 Landmeier Road in Elk Grove Village, Illinois. This facility is approximately 13,000 square feet and houses the corporate headquarters and a warehouse. We acquired this facility in August 1998 with a combination of stock and cash. The cash portion of the purchase price was financed through a mortgage on the building. The mortgage was refinanced in December 2006, bears interest at the rate of prime (currently 8.25%) plus 0.5%, and is payable in monthly installments of $3,000 plus interest, until a final balloon payment which is due on February 2008. There is no penalty for prepayment of the mortgage. As of March 2, 2007, the outstanding principal amount of the mortgage was $517,000.

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On June 29, 2006, we acquired Parke P.A.N.D.A. Corporation (now known as Parke Industries, LLC) (Parke). As part of the acquisition we assumed Parke s lease of a 5,000 square foot office in Glendora, California. The lease which expires on December 31, 2009 provides for monthly rent of $3,500, increasing 3% on the first of each year beginning on January 1, 2007. The building is owned by a company controlled by the former stockholder of Parke, Daniel Parke, who is currently Lime Energy s President, Chief Operating Officer and a Director.

On September 26, 2006, we acquired Kapadia Consulting, Inc. (now known as Kapadia Energy Services, Inc.), effective September 27, 2006. Kapadia leases a 2,000 square foot office in Peekskill, NY and a 918 square foot office in Ventura, California. The New York lease expired in 2000 and is operating on a month to month basis. The California lease expires on October 31, 2007.

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

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

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Set forth below is a description of our transactions with the Selling Stockholders during the past three (3) years. All share quantities and exercise prices in the following discussion have been adjusted to reflect the 1 for 15 reverse split of our common stock, effective January 23, 2007.

On May 26, 2004, Mr. Valentine was awarded options to purchase 5,000 shares of our stock pursuant to the Directors Option plan. The options have an exercise price of $26.10 per share, vested on January 1, 2005, and expire on the earlier of May 26, 2014, or six months following the date that Mr. Valentine is no longer one of our directors.

On March 19, 2004, in a private placement pursuant to Regulation D under the Securities Act of 1933, as amended (the 1933 Act), we entered into a securities purchase agreement with Security Equity Fund, SBL Fund V, Security Mid Cap Fund, and SBL Fund J, whereby we issued to such purchasers, in exchange for $11,000,000 in gross proceeds, a package of securities that included 333,333 shares of our common stock and five year warrants to purchase 116,667 additional shares of our common stock at $36.30 per share. The warrants contain anti-dilution provisions that adjust the exercise price if we issue shares of our common stock at a price below the lower of the exercise price or the market price at the time. A breakdown of the securities sold is as follows:

Investor	Common Stock	Common Stock Warrants	Purchase Price ($)
Security Equity Fund, Mid Cap Value Series	84,333	29,517	2,783,000
SBL Fund Series V	66,667	23,333	2,200,000
Security Mid Cap Growth Fund	59,333	20,767	1,958,000
SBL Fund Series J	123,000	43,050	4,059,000
Total	333,333	116,667	11,000,000

Also on March 19, 2004, we entered into a Redemption and Exchange Agreement with the holders of our outstanding Series A Convertible Preferred Stock, Series C Convertible Preferred Stock and Series D Convertible Preferred Stock (collectively, the Old Preferred Stock) under which we agreed to redeem 35,897 shares of Old Preferred Stock at a price of $195 per share (the Redemption) and to exchange shares of its newly authorized Series E Convertible Preferred Stock (the Series E Preferred) for all remaining outstanding shares of Old Preferred Stock (the Exchange) on a 1 for 10 basis (one share of Series E Preferred exchanged for 10 shares of Old Preferred Stock). We used $7 million of the proceeds from the issuance of securities to Security Equity Fund, SBL Fund V, Security Mid Cap Fund, and SBL Fund J to accomplish the Redemption.

Under the Redemption and Exchange transaction, on March 22, 2004 we redeemed 35,897 shares of our outstanding Old Preferred Stock (which were convertible into 358,975 shares of common stock) at a price equivalent to $19.50 per common share, and exchanged 210,451 shares of the new Series E Preferred for the remaining 2,104,509 outstanding shares of the Old Preferred Stock. Following closing of the Redemption and Exchange, no shares of Series A Preferred, Series C Preferred or Series D Preferred remained outstanding. Outstanding warrants to acquire shares of Series D Preferred held by David Asplund, Cinergy Ventures II, LLC, John Thomas Hurvis Revocable Trust, Richard Kiphart and SF Capital Partners Ltd. were exchanged for

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warrants to purchase shares of Series E Preferred on a 1 for 10 basis (each warrant to purchase 10 shares of Series D Preferred was exchanged for a warrant to purchase 1 shares of Series E Preferred). Except for the exercises described below, all such Series E Preferred Warrants expired on December 31, 2004 unexercised.

Each share of the Series E Preferred was convertible into 6.67 shares of Common Stock and had a liquidation preference of $200 per share. The Series E Preferred carried a dividend rate of 6% per annum, which was payable, at our option, in either cash or in additional shares of Series E Preferred. Dividends were payable at the end of each calendar quarter. No dividends on the Series E Preferred were ever paid in cash; all dividends were paid by issuing additional shares of Series E Preferred and are described below.

A breakdown of the Redemption and Exchange with respect to the Selling Stockholders is as follows:

Investor	Preferred Shares Exchanged *(1)*	Series E Shares Issued	Preferred Shares Redeemed *(1)*	Investor Proceeds from Redemption ($)	Series E Warrants Issued
David Asplund	29,344	2,934	0	0	94
Augustine Fund LP	145,397	14,540	0	0	0
Cinergy Ventures II	300,853	30,085	168,663	2,192,619	1500
John Donohue	25,090	2,509	0	0	0
John Thomas Hurvis Revocable Trust	28,414	2,841	15,930	207,090	94
Richard Kiphart	709,438	70,944	0	0	1313
Leaf Mountain Co.	207,463	20,746	116,307	1,511,991	0
SF Capital Partners Ltd.	234,758	23,476	0	0	750

(1) Includes shares paid in satisfaction of dividends accrued through March 19, 2004

On June 10, 2004, Mr. Asplund was granted options to purchase 1,667 shares of our stock pursuant to the Directors Option plan. The options have an exercise price of $27.75 per share and expire on the earlier of June 10, 2014, or six months following the date that Mr. Asplund is no longer a director of the Company.

On June 16, 2004, Mr. David Asplund exercised his warrant to purchase 94 shares of Series E Preferred (convertible into 627 shares of common stock) at a cost of $100 per Series E Preferred share.

On December 1, 2004, the John Thomas Hurvis Revocable Trust exercised its warrant to purchase 94 shares of Series E Preferred (convertible into 627 shares of common stock) at a cost of $100 per Series E Preferred share.

On December 27, 2004, John Donohue exercised a warrant to purchase 1,500 shares of Series E Preferred (convertible into 10,000 shares of common stock) at a cost of $100 per Series E Preferred share. Mr. Donohue purchased this warrant from Cinergy Ventures II, LLC in a private transaction which we was not a party to.

On December 28, 2004, Richard Kiphart exercised his warrant to purchase 1,312 shares of Series E Preferred (convertible into 8,747 shares of common stock) at a cost of $100 per Series E Preferred share.

On January 25, 2006, we issued a warrant to Bristol Capital Ltd. to purchase 10,000 shares of our common stock as partial payment for services. The warrant has an exercise price of $15.45 per share and expires on January 25, 2008.

On February 10, 2005, we issued a five year warrant to purchase 2,000 shares of common stock at $15.45 to Delano Group Securities, LLC (Delano), a company owned by Mr. David Asplund, one of our directors at that time (and, since January 23, 2006, our CEO) pursuant to an agreement to provide investment banking services.

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On April 28, 2005, in a private placement pursuant to Regulation D under the 1933 Act, we issued to five institutional investors, which are not Selling Stockholders, and the John Thomas Hurvis Revocable Trust, a Selling Stockholder, for an aggregate gross purchase price of $5,625,000, 416,667 shares of our common stock and 42 month warrants to purchase 208,333 additional shares of our common stock at $15.75 per share. Delano and Mr. David Valentine acted as advisors to the Company with respect to this transaction. We paid Delano $16,250 and 3,333 shares of common stock and we paid Mr. Valentine 3,333 shares of common stock for their services. The shares issued to Delano and Mr. Valentine were issued pursuant to our 2001 Incentive Stock Plan. John Thomas Hurvis Revocable Trust acquired the following securities for an aggregate purchase price of $125,000 in such transaction:

Investor	Common Stock	Common Stock Warrants	Purchase Price ($)
John Thomas Hurvis Revocable Trust	9,259	4,630	125,000

On May 3, 2005, pursuant to an Agreement and Plan of Merger dated as of April 29, 2005, by and among the Company, MPG Acquisition Corporation, our wholly owned subsidiary (Merger Subsidiary), and Maximum Performance Group, Inc. (MPG), we acquired MPG pursuant to the merger of MPG with and into Merger Subsidiary, with Merger Subsidiary continuing as the surviving corporation under the name Maximum Performance Group, Inc. Stockholders of MPG receiving consideration in the transaction included two Selling Stockholders. The merger consideration, after post closing adjustments, consisted of $1,632,079 in cash, 166,149 shares of our common stock and approximately 166,149 additional shares of our common stock which have been placed in escrow. The cash portion of the consideration was funded with proceeds from a private placement of our common stock completed on April 28, 2005, described under the preceding paragraph. Under the terms of the Merger Agreement, if MPG s revenues during the two years following the merger exceed an aggregate of $5,500,000, then the escrow shares will be released to the former stockholders of MPG at the rate of 13.467 shares for every $1,000 of revenue in excess of such amount. As of March 31, 2007, no shares have been released from such escrow. The distribution of stock received by Selling Stockholders as part of the merger consideration was as follows:

	Common Stock	Escrow Shares
Cinergy Ventures, LLC	52,706	63,621
Daniel Parke	21,082	15,125

Delano acted our advisor with respect to the transaction. We paid Delano $82,176 and 8,366 shares of our common stock at closing and will pay up to 8,366 additional shares of our common stock to Delano, as the escrow shares held in escrow are released if they are earned as described above. The shares issued to Delano were issued pursuant to our 2001 Incentive Stock Plan.

On April 28, 2005, we issued a five year warrant to Laurus Master Fund, Ltd. to purchase 26,667 shares of our common stock at an exercise price of $15.00 per share. Such warrant was issued in exchange for Laurus consent to our entering into the private placement and the related MPG acquisition transactions that closed on April 28, 2005 and May 3, 2005, respectively, and are described above, as well as Laurus waiving its right to adjust the conversion price on its convertible term note and convertible revolving note then outstanding.

On May 26, 2005, Mr. Valentine was awarded options to purchase 1,667 shares of our stock pursuant to the Directors Option plan. The options have an exercise price of $15.00 per share, vested on January 1, 2006, and expire on the earlier of May 26, 2015, or six months following the date that Mr. Valentine is no longer a director of the Company.

On June 10, 2005, Mr. Asplund was granted options to purchase 1,667 shares of our stock pursuant to the Directors Option plan. The options have an exercise price of $15.00 per share expire on the earlier of June 10, 2015, or six months following the date that Mr. Asplund is no longer a director of the Company.

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On October 5, 2005, Mr. Parke was awarded options to purchase 5,000 shares of our stock pursuant to the Directors Option plan. These options have an exercise price of $15.00 per share, vested on April 5, 2006 and expire on the earlier of October 5, 2015, or six months following the date that Mr. Parke is no longer a director of the Company.

On November 22, 2005, we entered into a securities purchase agreement with Laurus Master Fund, Ltd. under which we issued to Laurus, for an aggregate gross purchase price of $5,000,000, a $5 million convertible term note and a seven year warrant to purchase 133,333 shares of our common stock at an exercise price of $17.40 per share. The convertible term note was repaid in full on June 29, 2006. See Recent Events *The PIPE Transaction, Series E Conversion and Laurus Repayment*. Also see the following paragraphs.

During January 2006, we entered into a consulting agreement with Parke P.A.N.D.A. Corporation to provide sales and marketing consulting services. Parke P.A.N.D.A. is a company which at the time was beneficially owned by Daniel Parke, one of our directors. Pursuant to the consulting agreement we agreed to pay Parke P.A.N.D.A. $10,000 per month and to reimburse it for any expenses incurred as a result of its work. We paid Parke P.A.N.D.A. a total of $61,155 during the six months ended June 30, 2006. This agreement was terminated in May 2006.

In January 2006, we retained Corporate Resource Development, a company owned by William Carey, one of our directors, to provide sales training and sales and marketing consulting services to Lime Energy. We paid Corporate Resource Development a total of $62,500 for these services.

Effective January 23, 2006, we entered into an employment agreement with Mr. Asplund to serve as our Chief Executive Officer for three years, ending on January 22, 2009. The contract provides for a base annual salary of $285,000 and eligibility for up to $65,000 of cash bonus compensation each year, based on our performance. For 2006, the bonus was based on consolidated gross revenue, with $15,000 payable if gross revenue exceeded $10 million, an additional $15,000 payable if gross revenue exceeds $12.5 million, an additional $15,000 payable if gross revenue exceeds $16 million and an additional $20,000 payable if gross revenue exceeds $18 million. The bonus formula for the second and third contract years has not been determined but the agreement provides for it to be based on consolidated net income of the Company for such years.

In addition to base salary and bonus, we granted to Mr. Asplund ten-year options to purchase up to 100,000 shares for each of the three contract years, with such options vesting in arrears on the following January 22nd. The option price for the first 100,000 shares is $9.30, which was the 30 day average closing price of our common stock, determined on Friday, January 20, 2006, which was the last business day prior to the day Mr. Asplund began serving as CEO. Those options became vested on January 23, 2007. The option price for each of the subsequent grant is $0.96 per share, which was the closing price for our stock on January 22, 2007. 33,333 of such options were granted pursuant to our 2001 Incentive Stock Plan. The remaining 266,667 options were granted subject to obtaining shareholder approval to an amendment to our Incentive Stock Plan at the 2006 annual meeting of shareholders to increase the number of shares available under the Plan by at least 266,667. This approval was obtained at the annual meeting of stockholders held on June 7, 2006 and such options are now subject to the terms of our Incentive Stock Plan. Vesting of any unvested options will accelerate upon termination by the Company of Mr. Asplund s employment under the employment agreement (if such termination is for reasons other than Due Cause (as defined in the employment agreement). Vesting will also accelerate upon termination due to Mr. Asplund s death and upon a change of control. In the event of termination for Due Cause, all unexercised options terminate immediately, whether vested or unvested. In the event of termination due to Mr. Asplund s disability or due to his resignation (other than resignation pursuant to our breach), unvested options will terminate immediately, and vested options will be exercisable only for 180 days (if termination is due to disability) or for 90 days (if termination is due to Mr. Asplund s resignation). In the event of termination for the convenience of the Company, or by Mr. Asplund because of a breach by the Company, then all options which are scheduled to vest within one year shall vest immediately and be exercisable for one year thereafter. These options will otherwise expire on January 22, 2016.

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Change of control is defined as a merger or consolidation of the Company resulting in an unrelated entity acquiring the power to elect a majority of our Board of Directors, or a sale of substantially all of our assets to an entity that is not then controlled by or affiliated with the Company. In the event that a change of control occurs and Mr. Asplund s employment period is terminated by the Company, any unvested options will vest and be exercisable for one year. All stock options which are not exercised within one year following such termination shall thereupon expire and no longer be exercisable.

On January 24, 2006, Mr. Kiphart was awarded options to purchase 5,000 shares of our stock pursuant to the Directors Option plan. These options have an exercise price of $15.00 per share, vested on January 1, 2007, and expire on the earlier of January 24, 2016, or six months following the date that Mr. Kiphart is no longer a director of the Company.

On June 29, 2006, we entered into the PIPE Transaction and Series E Conversion with 18 persons and entities, and issued to 17 investors, including 10 existing holders of our Series E Preferred, 17,875,000 shares of our common stock for an aggregate purchase price of $17,875,000. The other person who was a party to such securities purchase agreement was a holder of Series E Preferred, who did not purchase any common stock under such agreement. The agreement also provided for the Series E Conversion, which was consummated on the same day and resulted in 21,648,346 shares of common stock being issued pursuant to conversion of all outstanding Series E Preferred.

A breakdown of the shares issued in the transaction and the shares issued as a result of the conversion of the Series E is as follows:

	Shares Issued Upon Conversion of Series E	Common Shares Issued Pursuant to PIPE	Aggregate Price Paid for PIPE Shares ($)
David R. Asplund	354,200	1,500,000	$ 1,500,000
Augustine Fund, LP	1,628,000	1,000,000	1,000,000
Christopher W. Capps	0	25,000	25,000
Cinergy Ventures II, LLC	1,902,293	1,100,000	1,100,000
John Donohue	294,000	0	0
Gregory Ekizian	0	400,000	400,000
Robert Gipson	1,913,600	450,000	450,000
Thomas Gipson	0	1,500,000	1,500,000
Julia Gluck	0	100,000	100,000
John Thomas Hurvis Revocable Trust	340,053	200,000	200,000
Rebecca Kiphart	0	200,000	200,000
Richard P. Kiphart	8,903,400	5,700,000	5,700,000
Leaf Mountain Company, LLC	2,015,900	1,300,000	1,300,000
Martin Mellish	0	250,000	250,000
Nikolaos Monoyios	1,913,600	450,000	450,000
Nettlestone Enterprises Limited	0	1,500,000	1,500,000
SF Capital Partners	2,237,600	2,000,000	2,000,000
David Valentine	145,700	200,000	200,000
Total	21,648,346	17,875,000	$17,875,000

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During the period from December 2003 through June 2006 we issued the following additional shares of preferred stock to Selling Stockholders as payment in kind dividends on outstanding shares of its Series A, Series C and Series D Convertible Preferred stock:

Holder	Dividends in Series A Shares	Dividends In Series C Shares	Dividends in Series D Shares	Dividends In Series E Shares	Common Share Equivalents
David R. Asplund	1,814	0	194	514	4,765
Augustine Fund LP	397	0	0	2,557	17,311
Cinergy Ventures II, LLC	29,018	0	3,108	5,583	58,637
John Donohue	90	0	0	431	2,933
Robert L. Gipson	0	0	0	1,635	10,900
John Thomas Hurvis Revocable Trust	1,814	0	194	814	6,765
Richard P. Kiphart	25,390	33,613	2,719	12,659	125,541
Nikolaos D. Monoyios	0	0	0	1,635	10,900
Leaf Mountain Company	68,770	0	0	3,413	68,600
SF Capital Partners Ltd.	14,508	0	1,554	3,900	36,708
David W. Valentine	0	0	0	144	960

Note: All of the outstanding Series A, Series C and Series D Convertible Preferred stock was redeemed for cash or exchanged for shares of Series E Preferred stock on March 22, 2004, as described above.

Also on June 29, 2006, Laurus Master Fund, Ltd. elected to convert its convertible revolving note, along with accrued interest thereon, into 950,865 shares of our common stock. In addition, in consideration of the issuance by the Company to Laurus of 392,596 shares of common stock, Laurus agreed to (a) waive the payment of liquidated damages due as a result of our failure to register shares of common stock into which the November 2005 $5 million convertible term note was convertible, and (b) terminate the requirement that we pay it a portion of the cash flows generated by our virtual Negawatt power plan projects for a period of 5 years following the repayment of the $5 million convertible term note, as required by the provisions of that note.

In addition, on June 29, 2006, we acquired Parke P.A.N.D.A. Corporation (Parke), for consideration consisting of $2.72 million in cash and $5 million of our common stock (5,000,000 shares valued at $1.00 per share). The acquisition was effective as of June 30, 2006. As part of the acquisition, we assumed debt of approximately $446,000, $400,000 of which we repaid upon closing. Parke was owned by The Parke Family Trust, whose trustees are Daniel Parke, one of our directors, and his wife Michelle Parke.

On June 30, 2006, Parke Industries, LLC entered into an Employment Agreement with Daniel Parke providing, among other things, that Mr. Parke would be employed as President of Parke Industries, LLC for two years at an annual salary of $250,000 per year and for the Company to grant to Mr. Parke ten-year options to purchase up to 46,667 shares of common stock at a price per share of $1.10 (the closing market price of Lime Energy s common stock on July 3, 2006, the business day immediately following the date of such Employment Agreement). Such options vest in three installments, with one-third vesting immediately, one third on June 30, 2007 and one-third on June 30, 2008. In the event that Mr. Parke s employment terminates for Due Cause (as defined therein), all unexercised options terminate immediately, whether or not vested. In the event of termination of such employment by reason of death or disability, any unvested options terminate and any vested options must be exercised within 90 days. In the event of termination of such employment for the convenience of the employer, or by Mr. Parke because of a breach by the employer, then all options which are scheduled to vest within one year shall vest immediately and be exercisable for one year thereafter. Change of control is defined as a merger or consolidation of the Company resulting in an unrelated entity acquiring the power to elect a majority of our Board of Directors, or a sale of substantially all of our assets to an entity that is not then controlled by or affiliated with the Company. In the event that a change of control occurs and Mr. Parke s employment period is terminated, any unvested options will vest and be exercisable for one year. All stock options which are not exercised within one year following such termination shall thereupon expire and no longer be exercisable. These options will otherwise expire on June 30, 2016.

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As part of the acquisition of Parke P.A.N.D.A. Corporation, we assumed its existing office lease for space in a building owned by Daniel Parke in Glendora California. We believe that the terms of the lease are fair as they are comparable to the terms of leases with other third party tenants located in the building.

On July 11, 2006, Mr. Asplund was granted additional options to purchase up to 4.3 million shares, with his right to exercise such options vesting with respect to 1.5 million options on December 31, 2006; 1.4 million options on December 31, 2007 and 1.4 million options on December 31, 2008. The exercise price on the 1.5 million options vesting on December 31, 2006 is $1.02 per share. The exercise price on the 1.4 million options vesting on December 31, 2007 and December 3, 2008 is equal to $0.96 per share. Vesting of the options will accelerate upon termination for reasons other than due cause (as defined in the option agreement), death, disability or resignation and upon a change of control. These options will expire on the earlier of January 22, 2016, or six months following the date that Mr. Asplund is no longer an employee of the Company, unless his termination was for due cause (as defined in the option agreement) in which case they will expire immediately, or due to a change of control (as defined in the option agreement) in which case they will expire twelve months following the change of control. These options contain a cashless exercise provision permitting Mr. Asplund to pay the purchase price for any shares acquired by exercising the option by surrendering to the Company a number of shares of common stock having an aggregate market value equal to the purchase price.

On July 11, 2006, Mr. Kiphart was awarded options to purchase 100,000 shares of our stock pursuant to the Directors Option plan. These options have an exercise price of $1.02 per share, vested on January 11, 2007, and expire on the earlier of July 11, 2016, or six months following the date that Mr. Kiphart is no longer a director of the Company.

On July 11, 2006, Mr. Parke was granted additional options to purchase up to 653,333 shares of the Company common stock at $1.02 per share. Mr. Parke s right to exercise these options vest with respect to 217,765 options on December 31, 2006; 217,784 options on each of December 31, 2007 and December 31, 2008, in each case assuming that Mr. Parke continues to be employed by the Company on such date. Vesting of the options will accelerate upon termination for reasons other than due cause (as defined in his option agreement), death, disability or resignation and upon a change of control. These options will expire on the earlier of July 11, 2016, or six months following the date that Mr. Parke is no longer an employee of the Company, unless his termination is for due cause (as defined in the option agreement) in which case they will expire immediately, or due to a change of control (as defined in the option) in which case they will expire twelve months following the change of control. These options contain a cashless exercise provision permitting Mr. Parke to pay the purchase price for any shares acquired by exercising the option by surrendering to the Company a number of shares of common stock having an aggregate market value equal to the purchase price.

On July 11, 2006, Mr. Valentine was awarded options to purchase 100,000 shares of our stock pursuant to the Directors Option plan. The options have an exercise price of $1.02 per share, vested on January 11, 2007, and expire on the earlier of July 11, 2016, or six months following the date that Mr. Valentine is no longer a director of the Company.

On July 25, 2006, we issued a warrant to Bristol Capital Ltd. to purchase 60,000 shares of its common stock as partial payment for services. The warrant has an exercise price of $1.00 per share and expires on July 25, 2009.

On January 2, 2007, Mr. Kiphart was awarded options to purchase 50,000 shares of our stock pursuant to the Directors Option plan. The options have an exercise price of $0.90 per share, will vest on January 1, 2008, and expire on the earlier of January 2, 2017, or six months following the date that Mr. Kiphart is no longer a director of the Company.

On January 2, 2007, Mr. Valentine was awarded options to purchase 50,000 shares of our stock pursuant to the Directors Option plan. The options have an exercise price of $0.90 per share, will vest on January 1, 2008, and expire on the earlier of January 2, 2017, or six months following the date that Mr. Valentine is no longer a director of the Company.

On January 23, 2007, we issued a warrant to Bristol Capital Ltd. to purchase 120,000 shares of its common stock as partial payment for services. The warrant has an exercise price of $1.00 per share and expires on December 31, 2009.

On January 23, 2007, we filed an amendment to our certificate of incorporation to effect the 1 for 15 reverse split of our common stock. See Recent Events *Reverse Stock Split* and Recent Events *Amendment to Certificate of Incorporation.* Because the reverse split became effective January 23, 2007 and not on June 15, 2006 as we had believed, the shares of common stock that were issued in the June 29 Transactions were reduced on a 1 for 15 basis when the amendment was filed. Since both we and the other parties to those transactions intended that the shares we issued were post-reverse split shares, following the filing of the amendment and the reverse split becoming effective, we offered to each of the recipients of shares in the June 29 Transactions, which include certain Selling Stockholders under this Prospectus, additional shares of common stock so that each would have the specific number of post-reverse split shares of which were intended in those transactions, in satisfaction of any claims such recipients might have in respect of such matter. All of them accepted such offer. Such catch-up shares were issued on or about February 1, 2007. Please see the discussion of the Reverse Stock Split (including the table therein) and of the Amendment to Certificate of Incorporation under Recent Events on pages 3 and 7 for additional information regarding these issuances. Among those receiving catch-up shares were Mr. Kiphart, Mr. Asplund, Mr. Parke and Mr. Valentine. They received the following shares of stock on or about February 1, 2007:

Stockholder	No. Of Shares Actually Acquired After June 15, 2006	Number Of Shares After The Amendment and Reverse-Split	Number Of Catch Up Shares Issued
David R. Asplund	1,854,200	123,613	1,730,587
Richard P. Kiphart	14,603,400	973,560	13,629,840
David W. Valentine	345,700	23,047	322,653
The Parke Family Trust	5,000,000	333,333	4,666,667

On January 26, 2007, we again retained Corporate Resource Development to provide additional sales and marketing consulting services, for which we agreed to pay it $17,500 per month for up to 3 months. In January 2007, we also entered into an agreement with Mr. Carey to provide us with sales and marketing leads and introductions. In exchange for these services we agreed to pay Mr. Carey a commission of 1.5% on any sale that closes as a result of his work and granted him a three-year warrant to purchase 300,000 shares of our stock at $1.08 per share. Half of these warrants are exercisable immediately and the remaining half are exercisable any time after August 1, 2007, provided that his efforts have generated sales for the Company prior to August 1st.

A provision of the June 29, 2006 PIPE Transaction required us to file and have declared effective by November 3, 2006, a registration statement registering the shares issued as part of the PIPE Transaction. To the extent that we failed to have the registration statement declared effective by this date, we were required to pay penalties to the PIPE investors at the rate of 1% per month of the purchase price paid by the investors. Largely as a result of the questions regarding the need to amend our Certificate of Incorporation to effect the June 15, 2006 reverse split of our stock, we were not able to have the registration statement declared effective before the November 3, 2006 deadline. All of the investors in the PIPE Transaction agreed to accept shares of our common stock, valued at $1.00 per share, as payment of this registration penalty. As a result, on January 24, 2007, February 2, 2007 and February 15, 2007 we issued a total of 613,708 shares of common stock to these PIPE investors in satisfaction of the penalties owed through February 14,

2007, the date the registration statement was

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declared effective. Among those receiving shares of stock in satisfaction of the registration penalty were Mr. Asplund, Mr. Kiphart and Mr. Valentine. They received the following shares of stock:

Stockholder	Total Shares Received
David R. Asplund	51,500
Richard P. Kiphart	195,700
David W. Valentine	6,867

Due to potential conflicts of interest resulting from (i) the beneficial ownership of Parke P.A.N.D.A. Corporation by Daniel Parke, and (ii) certain members of our Board (Messrs. Kiphart, Asplund and Valentine) beneficially owning shares of Series E Preferred Stock and agreeing to purchase shares of common stock in the PIPE Transaction and concurrently convert their shares of Series E Preferred Stock into shares of our common stock, our board established a special committee comprised solely of disinterested, independent directors to review, negotiate and approve the acquisition of Parke P.A.N.D.A. and the PIPE Transaction. The special committee retained Rittenhouse Capital Partners, LLC (Rittenhouse) to act as its financial advisor, and legal counsel to assist it in its review of these transactions. Rittenhouse reviewed the Parke acquisition and delivered to the special committee an opinion to the effect that the purchase price paid for Parke was fair to us from a financial point of view. It also provided information, advice and analysis to assist the committee in its review of the structure and pricing of the PIPE Transaction. Legal counsel assisted the special committee in its review of these transactions and advised the committee on its duties and responsibilities. After considering all of the information it had gathered, the committee concluded that these transactions were in the best interests of the Company and its stockholders, and approved the Parke acquisition and the PIPE Transaction.

Review, Approval or Ratification of Transactions with Related Persons

We do not have a written policy concerning transactions between the us and any director or executive officer, nominee for director, 5% stockholder or member of the immediate family of any such person. However, our policy is that such transactions shall be reviewed by our Board of Directors and found to be fair to the Company prior to entering into any such transaction, except for (i) executive officers participation in employee benefits which are available to all employees generally; (ii) transactions involving routine goods or services which are purchased or sold by us on the same terms as are generally available in arm s length transactions with unrelated parties (however, such transactions are still subject to approval by our authorized representative in accordance with internal policies and procedures applicable to such transactions with unrelated third parties); and (iii) compensation decisions with respect to executive officers other than the CEO, which are made by the Compensation Committee pursuant to recommendations of the CEO, as is described under Executive Compensation below.

MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

From December 12, 2000 to June 9, 2006, our common stock was listed on the American Stock Exchange under the trading symbol ELC . From June 12, 2006 through September 21, 2006, our common stock traded on the OTC Bulletin Board under the trading symbol ELCY. Since September 22, 2006, our stock has traded on the OTC Bulletin Board under the symbol LMEC.

In June, 2006, we announced a 1 for 15 reverse split of our common stock, effective on June 15, 2006 and since that date, our common stock has been trading on that basis. See Recent Events *Reverse Stock Split* for more information about this matter.

The closing price of our common stock on May 7, 2007 was $1.05. The following table sets forth the quarterly high and low selling prices for our common stock as reported on The American Stock Exchange and OTC Bulletin Board since January 1, 2004, adjusted for the reverse split.

	Common Stock	
	High	**Low**
Fiscal Year Ended December 31, 2005:		
Fiscal Quarter Ended March 31, 2005	$19.50	$12.90
Fiscal Quarter Ended June 30, 2005	$16.05	$12.15
Fiscal Quarter Ended September 30, 2005	$18.60	$10.05
Fiscal Quarter Ended December 31, 2005	$13.65	$ 7.50
Fiscal Year Ended December 31, 2006:		
Fiscal Quarter Ended March 31, 2006	$16.80	$ 8.40
Fiscal Quarter Ended June 30, 2006	$10.20	$ 0.70
Fiscal Quarter Ended September 30, 2006	$ 1.40	$ 0.75
Fiscal Quarter Ended December 31, 2006	$ 1.29	$ 0.76
Fiscal Year Ended December 31, 2007:		
Fiscal Quarter Ended March 31, 2007	$ 1.10	$ 0.90
April 1, 2007 Through May 7, 2007	$ 1.09	$ 0.83

Holders

As of May 8, 2007 we had approximately 5,400 holders of record of our common stock and 53,566,100 shares of common stock outstanding.

Dividends

No dividends were paid during the three-month period ended March 31, 2007.

We have never declared or paid any cash dividends on our common stock and we do not anticipate paying any cash dividends in the foreseeable future. See Management s Discussion and Analysis and Results of Operations Liquidity and Capital Resources.

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EXECUTIVE COMPENSATION

Overview of Executive Compensation Program

We have not had a formalized program for determining executive compensation. In fact, three of the four current executive officers (Messrs. Asplund, Parke and Pisano) receive most of their compensation under written employment agreements that were negotiated in connection with their becoming our employees. In each of these instances, the Board of Directors approved the employment agreement and the terms were negotiated at the time in light of specific circumstances. However, in general, our executive officers have received compensation consisting of three components, 1) a cash component, consisting of salary meant to be competitive with salaries such individuals could obtain from other employers, 2) eligibility for annual cash bonuses based on meeting or exceeding certain goals established for the year, and 3) stock options intended to reward achievement of long-term goals and align the interests of our executive officers with those of our stockholders. In certain cases, we have provided automobile allowances to executives who are expected to use their cars for Company business. Executive officers participate in group health insurance on the same basis as other full-time employees.

Except as noted above with respect to the current employment agreements with Messrs. Asplund, Parke and Pisano, the Compensation Committee of the Board of Directors makes all compensation decisions for our executive officers. Generally, compensation decisions for executive officers other than our chief executive officer (CEO) have been made by the Compensation Committee pursuant to recommendations made by the CEO. We have not used consultants in connection with making compensation decisions and do not have any current engagement with any consultant related to executive or director compensation.

Objectives of Compensation Program

Compensation of our executive officers is intended to reward improved overall financial performance of the Company and our subsidiaries, and to reward achievement of specified annual goals and increases in stockholder value over the long term.

Annual salaries for executive officers have been established with the goal of attracting and retaining qualified individuals for the positions. These salaries have been determined on a case-by-case basis.

Eligibility for annual cash bonus awards has been based on specific performance goals for the year for the Company and our subsidiaries. The amount of bonus for which an individual is eligible for any year has been determined on a case-by-case basis, although the annual bonus plan targets have been established for all participants in any given year.

Stock options awards are intended to reward achievement leading to increases in our profitability and stockholder value over the longer term. The amounts of awards have been determined on a case-by-case basis.

In order to reward superior short-term performance, cash compensation each year has included eligibility for a cash bonus based on annual goals established by the Compensation Committee, subject to approval of the Board. During the past five years, however, no cash bonuses have been paid pursuant to such annual plans, as we have not achieved the annual goals in any fiscal year. The Board and the Compensation Committee are now in the process of reviewing the annual bonus plan portion of cash compensation with the goal of making it more effective at achieving such annual goals.

To motivate executive officers to achieve the longer-term goal of increasing our profitability and stockholder value, and to reward them for achieving such long-term goals, stock options have been included as part of the compensation structure for our executive officers. Stock options also provide an increased opportunity for equity ownership by our executive officers, thereby further aligning their interest with those of our stockholders. Option grants have been made on a case-by-case basis. A typical stock option grant has been structured to have a ten year exercise period, to vest over a period of years, with vesting also depending upon

the executive remaining employed by us, and to have an exercise price equal to the market price on the grant date. In certain cases, options have been granted at an exercise price higher than the market price. We have not granted options with an exercise price that is less than the market price on the grant date.

Stock price performance has not been a factor in determining annual compensation because the price of the common stock is subject to factors which may not reflect our performance and are outside of our control.

We do not have a formula for allocating between cash and non-cash compensation. The number of stock options awarded to an executive officer has been decided on a case-by-case basis taking into consideration other components of compensation, not pursuant to any specific guidelines or program. Most of the stock options we have awarded to executive officers have been pursuant to written employment agreements entered into when the executive joined us, or pursuant to extending such employment under a new written agreement entered into following termination of the old one.

An exception to this occurred in July 2006, when a number of stock option grants to executives and other employees were made following consummation of the transactions which closed at the end of June. Options granted to executive officers in July 2006 are described under Employment Contracts, Termination of Employment and Change-in-Control Arrangements below.

Accounting and Tax Considerations

Our stock option grant policies have been impacted by the implementation of SFAS No. 123(R), which we adopted effective on January 1, 2006. Under this accounting pronouncement, we are required to value unvested stock options granted prior to our adoption of SFAS 123 under the fair value method and expense those amounts in the income statement over the stock option s remaining vesting period. As a result of adopting SFAS No. 123(R), $4,828,955 of share based compensation expense was included in the results for 2006.

Current Executive Officers

We currently has four executive officers: David Asplund, our Chief Executive Officer, Jeffrey Mistarz, Chief Financial Officer (CFO), Daniel Parke, our President and Chief Operating Officer (Mr. Parke is also president of Parke Industries, LLC, a subsidiary), and Leonard Pisano, our executive vice president of business development (Mr. Pisano is also president of Maximum Performance Group, Inc., a subsidiary). For purposes of compensation disclosure for 2006, information is also included for Anna Baluyot, our former senior vice president who resigned on November 10, 2006, but was among our five mostly highly compensated employees for the fiscal year ended December 31, 2006.

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2006 SUMMARY COMPENSATION TABLE

The following table sets forth the compensation earned, awarded or paid for services rendered to us for the year ended December 31, 2006 by two individuals who served as our principal executive officer (PEO), our principal financial officer (PFO), and our three most highly compensated executive officers, one of whom resigned prior to the end of the fiscal year. These persons are referred to, collectively, as the named executive officers.

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Name and Principal Position	**Year**	**Salary ($)**	**Bonus ($)**	**Stock Awards ($)**	**Option Awards ($) *(1)***	**Non-Equity Incentive Plan Compensation ($)**	**Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)**	**All Other Compensation ($)**	**Total ($)**
David R. Asplund *Chief Executive Officer (PEO)*	2006	268,923			2,061,732*(2)*			20,662*(3)*	2,351,317
Anna Baluyot *(4)* *Senior Vice President, Utility Development*	2006	123,878			9,537			4,525*(5)*	137,940
Jeffrey R. Mistarz *Executive Vice President & Chief Financial Officer (PFO)*	2006	210,000			402,059			6,518*(6)*	618,577
Daniel W. Parke *(7)* *President, Chief Operating Officer of Lime Energy Co. & President of Parke Industries, LLC*	2006	128,892			304,810*(8)*			50,644*(9)*	484,346
Leonard Pisano *Executive Vice President of Business*	2006	225,000			594,991			6,399*(10)*	826,390

Development & President of Maximum Performance Group, Inc.				
John P. Mitola ***(11)*** *Our former Chief Executive Officer (former PEO)*	2006	20,833	106,964*(12)*	127,797

(1) Amounts represent the compensation cost recognized during 2006 of stock awards granted in and prior to 2006 based on the grant date fair value recognized over the requisite service period in accordance with Statement of Financial Accounting Standards (SFAS) No. 123(R). The value weighted-average significant assumptions used to determine the grant date fair value are as follows:

Significant Assumption (value weighted-average)	2006	2005	2004
Risk-free rate	5.02%	2.27%	1.04%
Dividend yield			
Expected volatility	90%	65%	72%
Expected life (years)	5.6	9.1	9.1

(2) Includes the costs recognized during 2006 of director options awarded to

Mr. Asplund prior to his employment with us totaling $4,636.

(3) Includes $11,873 for the cost of life and long-term disability insurance, $6,325 of auto allowance and the $2,464 cost of membership to a business club provided to Mr. Asplund.

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(4) Ms. Baluyot resigned November 10, 2006.

(5) Includes $4,200 of auto allowance and $325 for the cost of long-term disability insurance provided Ms. Baluyot.

(6) Represents the cost of life insurance and long-term disability insurance provided to Mr. Mistarz.

(7) Mr. Parke became our President effective June 30, 2006 when we acquired his company, Parke P.A.N.D.A. Corporation. The compensation reported for Mr. Parke only includes the amounts paid to him since June 30, 2006.

(8) Includes the costs recognized during 2006 of director options awarded to

Mr. Parke prior to his employment with us totaling at $11,880.

(9) During January 2006, we entered into a consulting agreement with Parke P.A.N.D.A. Corporation to provide sales and marketing consulting services. Parke P.A.N.D.A. is a company which at the time was beneficially owned by Daniel Parke. Pursuant to the consulting agreement we agreed to pay Parke P.A.N.D.A. $10,000 per month and to reimburse it for any expenses incurred as a result of its work. We paid Parke P.A.N.D.A. a total of $50,000 for its services and reimbursed it $11,155 for expenses during the six months ended June 30, 2006. This agreement was terminated in May 2006 prior to the

acquisition of Parke P.A.N.D.A Corporation on May 29, 2006. Also includes $644 for the cost of long-term disability insurance provided Mr. Parke.

(10) Includes $6,000 of auto allowance and $399 for the cost of long-term disability insurance provided Mr. Pisano.

(11) Mr. Mitola resigned effective January 22, 2006.

(12) Includes $550 of auto allowance and $754 for the cost of life and long-term disability insurance provided for Mr. Mitola. Also includes $105,660 paid to Mr. Mitola pursuant to a consulting agreement under which he agreed to continue to assist us through July 31, 2006.

Employment Contracts, Termination of Employment and Change-in-Control Arrangements

David R. Asplund

Effective January 23, 2006, we entered into an employment contract with David Asplund for a three-year period ending January 22, 2009 to serve as our Chief Executive Officer. The contract provides for a base annual salary of $285,000 and eligibility for up to $65,000 of cash bonus compensation each year, based on our performance. For 2006, the bonus was based on consolidated gross revenue, with $15,000 payable if gross revenue exceeds $10 million, an additional $15,000 payable if gross revenue exceeds $12.5 million, an additional $15,000 payable if gross revenue exceeds $16 million and an additional $20,000 payable if gross revenue exceeds $18 million. No bonus was paid for 2006. The bonus formula for the second and third contract years has not been determined but is to be based on our consolidated net income for such years.

In addition to base salary and bonus, we granted to Mr. Asplund ten-year options to purchase up to 100,000 shares for each of the three contract years, with such options vesting in arrears on the following January 22nd. The option price for the first 100,000 shares is $9.30, which was the 30-day average closing price of our common stock, determined on Friday, January 20, 2006, which was the last business day prior to the day Mr. Asplund began serving as CEO. Those options became vested on January 23, 2007 and are scheduled to expire on January 22, 2016, except as described below. The option exercise price for the remaining grants was set by our Board on January 26, 2007 to be $0.96 per share.

Under his employment agreement with us, Mr. Asplund is entitled to certain benefits if his employment terminates for certain reasons. If Mr. Asplund should die prior to January 23, 2009, all of his unvested stock options would immediately vest. In addition, all such stock options and any previously vested stock options, would be exercisable for a period of one year following the date of death.

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If Mr. Asplund should become permanently disabled (such that he could not perform his duties for 180 consecutive days or for 180 days in any period of 12 consecutive months), we would have the right to terminate his employment, then any stock options which were then already vested would be exercisable for a period of 180 days following such termination.

If Mr. Asplund should terminate his employment prior to January 22, 2009 for reasons other than death, disability or uncured default by us under the agreement, then any vested stock options as of the date of termination shall be exercisable for 90 days following the date of termination.

If we should terminate Mr. Asplund s employment prior to January 22, 2009, for any reason other than death, disability or Due Cause (as defined in the employment agreement), or if Mr. Asplund should choose to terminate his employment because we defaulted in our obligations under the agreement and failed to cure such default after notice, then all unvested stock options which are scheduled to vest within one year of the date of termination will immediately vest. In addition, all such stock options and any previously vested stock options, would be exercisable for a period of one year following the date of termination. Additionally, we will pay Mr. Asplund, as severance compensation, (i) six months salary at his then current rate, in installments in accordance with our regular payroll, plus (ii) any bonus earned as of the termination date, in accordance with the terms of such bonus, plus (iii) any accrued unused vacation (which will be paid on the next regular payroll date).

Due Cause is defined as any of (i) a material breach by Mr. Asplund of his agreement not cured within 15 calendar days following written notice thereof, (ii) commission of a felony, or theft or embezzlement of our property, (iii) actions which result in material injury to our businesses, properties or reputation, (iv) refusal to perform or substantial neglect of the duties assigned to Mr. Asplund not remedied within 15 calendar days following written notice thereof, or (v) any material violation of any statutory or common law duty of loyalty to the Company.

In addition to the foregoing, upon occurrence of a Change of Control all stock options granted to Mr. Asplund under the agreement shall immediately vest and become exercisable. Change of Control shall be deemed to have occurred when (i) the Company is merged or consolidated with another entity which is not then controlled by us and, as a result of such merger or consolidation, an unrelated entity acquires the ability to elect a majority of our Board of Directors, or (ii) substantially all of our assets are sold or otherwise transferred to another entity that is not then controlled by or affiliated with us.

The employment agreement imposes on Mr. Asplund non-competition, non-solicitation and confidentiality obligations, which are not separately compensated. The non-competition obligation covers the employment period and extends for two years after termination.

On July 11, 2006, Mr. Asplund was awarded options to purchase up to 4,300,000 shares of our common stock, of which 1,500,000 are exercisable at $1.02 per share and the remaining 2,800,00 are exercisable at $0.96 per share. The options vest as follows: 1,500,000 on December 31, 2006, 1,400,000 on December 31, 2007 and 1,400,000 on December 31, 2008, in each case assuming that Mr. Asplund continues to be employed by us on such date. Vesting of the options will accelerate upon termination for reasons other than due cause (defined similarly to the definition in his employment agreement), death, disability or resignation and upon a change of control. These options will expire on the earlier of July 11, 2016, or six months following the date that Mr. Asplund is no longer our employee, unless his termination is for due cause (as defined in the option agreement) in which case they will expire immediately, or due to a change of control (as defined in the option agreement) in which case they will expire twelve months following the change of control. These options contain a cashless exercise provision permitting Mr. Asplund to pay the purchase price for any shares acquired by exercising the option by surrendering to us a number of shares of common stock having an aggregate market value equal to the purchase price.

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Leonard Pisano

Effective May 3, 2005, our subsidiary, Maximum Performance Group, Inc. (MPG), entered into an employment agreement with Leonard Pisano to serve as its president for a three-year period ending May 2, 2008. We also appointed him our chief operating officer, a position which he held until June 30, 2006, when he became our executive vice president of business development. The employment agreement provides for a base salary of $225,000 plus a monthly auto allowance of $500. In addition, Mr. Pisano is eligible to receive a $50,000 bonus upon MPG s achievement of two consecutive quarters of positive EBITDA and to participate in an annual bonus plan with certain other management employees as determined by our Board of Directors. The employment agreement also provides that Mr. Pisano shall have board observation rights such that he may attend meetings of our Board of Directors as an observer during the employment term. The agreement also provides that Mr. Pisano is to be granted ten year options to purchase 31,667 shares of our common stock at $15.00 per share. These options vest 5,000 on the effective date of the agreement, 8,889 shares on each of the remaining anniversaries of the agreement, except on occurrence of a Change of Control all these options shall immediately vest and become exercisable. Change of Control shall be deemed to have occurred when (i) the Company is merged or consolidated with another entity which is not then controlled by Lime and, as a result of such merger or consolidation, at 51% of Lime s common stock is controlled by another entity, or (ii) a majority of our assets are sold or otherwise transferred to another entity that is not then controlled by or affiliated with us. These options will otherwise expire on May 3, 2015.

Under his employment agreement, if MPG should terminate his employment prior to May 2, 2008, for any reason other than death, disability or Due Cause , then MPG will continue to pay Mr. Pisano his salary and benefits under the agreement until May 3, 2008.

Due Cause is defined in Mr. Pisano s agreement in terms similar to those under David Asplund s employment agreement, but also includes any violation of MPG s drug and alcohol policy and any commission of an act of moral turpitude.

The employment agreement imposes on Mr. Pisano non-competition, non-solicitation and confidentiality obligations, which are not separately compensated. The non-competition obligation covers the employment period and extends for two years after termination.

On July 11, 2006, Mr. Pisano was awarded options to purchase up to 1,350,000 shares of our common stock at $1.02 per share. The options vest in three equal amounts, with 450,000 vesting on December 31, 2006, 450,000 vesting on December 31, 2007 and 450,000 vesting on December 31, 2008, in each case assuming that Mr. Pisano continues to be employed by us on such date. Vesting of the options will accelerate upon termination for reasons other than due cause (defined similarly to the definition in his employment agreement), death, disability or resignation and upon a change of control. These options will expire on the earlier of July 11, 2016, or six months following the date that Mr. Pisano is no longer our employee, unless his termination is for due cause (as defined in the option agreement) in which case they will expire immediately, or due to a change of control (as defined in the option agreement) in which case they will expire twelve months following the change of control. These options contain a cashless exercise provision permitting Mr. Pisano to pay the purchase price for any shares acquired by exercising the option by surrendering to us a number of shares of common stock having an aggregate market value equal to the purchase price.

Jeffrey R. Mistarz

Effective January 1, 2003, we entered into an employment agreement with Mr. Mistarz for a three-year period ending on December 31, 2005. This agreement provided for an annual base salary of $175,000 through December 31, 2003, which increased to $210,000 effective January 1, 2004. In addition, Mr. Mistarz was eligible to participate in an annual bonus plan with certain other management employees. The agreement provided Mr. Mistarz with options to purchase 26,667 shares of our common stock at a price of $15.00 per share, which options vested 8,889 shares each on December 31, 2003, 2004 and 2005. Except as specifically set forth in the employment agreement, such options are governed by our 2001 Stock Incentive Plan.

On August 15, 2006, we entered into a new employment agreement with Mr. Mistarz to serve as our executive vice president and chief financial officer for a two-year period ending August 14, 2008. The employment agreement provides for a base salary of $210,000. In addition, Mr. Mistarz is eligible to participate in an annual bonus plan with certain other management employees as determined by the Board of Directors. The employment contract also provides that Mr. Mistarz is to be granted options to purchase 300,000 shares of our common stock at $1.00 per share. The options vest in three equal amounts, with one third vesting upon signing of the employment contract, the second third vesting on the first anniversary of the employment contract and the final third vesting on the second anniversary of the employment contract.

Under his employment agreement with us, Mr. Mistarz is entitled to certain benefits if his employment terminates for certain reasons. If Mr. Mistarz should die prior to August 15, 2008, all of his unvested stock options would immediately vest. In addition, all such stock options and any previously vested stock options, would be exercisable for a period of one year following the date of death.

If Mr. Mistarz should become permanently disabled (such that he could not perform his duties for 180 consecutive days or for 180 days in any period of 12 consecutive months), we would have the right to terminate his employment, then any stock options which were then already vested would be exercisable for a period of 90 days following such termination.

If Mr. Mistarz should terminate his employment prior to August 14, 2008 for reasons other than death, disability or uncured default by the Company under the agreement, then any vested stock options as of the date of termination shall be exercisable for 90 days following the date of termination.

If we should terminate Mr. Mistarz s employment prior to August 14, 2008, for any reason other than death, disability or Due Cause , or if Mr. Mistarz should choose to terminate his employment because we defaulted in our obligations under the agreement and failed to cure such default after notice, then all unvested stock options which are scheduled to vest within one year of the date of termination will immediately vest. In addition, all such stock options and any previously vested stock options, would be exercisable for a period of one year following the date of termination. Additionally, we will pay Mr. Mistarz, as severance compensation, (i) six months salary at his then current rate, in installments in accordance with our regular payroll, plus (ii) any bonus earned as of the termination date, in accordance with the terms of such bonus, plus (iii) any accrued unused vacation (which will be paid on the next regular payroll date).

Due Cause is defined in Mr. Mistarz s agreement in terms substantially similar to those under David Asplund s employment agreement.

In addition to the foregoing, upon occurrence of a Change of Control all stock options granted to Mr. Mistarz under the agreement shall immediately vest and become exercisable. Change of Control shall be deemed to have occurred when (i) the Company is merged or consolidated with another entity which is not then controlled by us and, as a result of such merger or consolidation, at least 51% of our common stock is controlled by another entity, or (ii) a majority of our assets are sold or otherwise transferred to another entity that is not then controlled by or affiliated with us.

The employment agreement also imposes non-competition, non-solicitation and confidentiality obligations on Mr. Mistarz, which are not separately compensated. The non-competition obligation covers the employment period and extends for two years after termination.

On July 11, 2006, Mr. Mistarz was awarded options to purchase up to 750,000 shares of our common stock at $1.02 per share. The options vest in three equal amounts, with 250,000 vesting on December 31, 2006, 250,000 vesting on December 31, 2007 and 250,000 vesting on December 31, 2008, in each case assuming that Mr. Mistarz continues to be employed by us on such date. Vesting of the options will accelerate upon termination for reasons other than due cause (as defined in his option agreement), death, disability or resignation and upon a change of control. These options will expire on the earlier of July 11, 2016, or six months following the date that Mr. Mistarz is no longer our employee, unless his termination is for due cause (as defined in the option agreement) in which case they will expire immediately, or due to a change of control

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(as defined in the option agreement) in which case they will expire twelve months following the change of control. These options contain a cashless exercise provision permitting Mr. Mistarz to pay the purchase price for any shares acquired by exercising the option by surrendering to us a number of shares of common stock having an aggregate market value equal to the purchase price.

Daniel W. Parke

Effective June 30, 2006, Parke Industries, LLC (Parke Industries) entered into an employment agreement with Daniel Parke to serve as its president for a two-year period ending June 30, 2008. We also appointed him our president and chief operating officer. The employment agreement provides for a base salary of $250,000 plus a monthly auto allowance of $800. In addition, Mr. Parke is eligible to participate in an annual bonus plan with certain other management employees as determined by the Board of Directors. The employment contract also provides that Mr. Parke is granted ten year options to purchase 46,667 shares of our common stock at $1.10 per share. These options vest 15,555 on the effective date of the agreement, 15,556 shares on the first anniversary of the agreement and 15,556 on the second anniversary of the agreement. Except as specifically set forth in the employment agreement, such options are governed by our 2001 Stock Incentive Plan. These options will otherwise expire on June 30, 2016, except as described below. The employment agreement also imposes confidentiality obligations on Mr. Parke.

Under his employment agreement, Mr. Parke is entitled to certain benefits if his employment terminates for certain reasons. If Mr. Parke should die prior to June 30, 2008, all of his unvested stock options for our common stock would immediately vest. In addition, all such stock options and any previously vested stock options, would be exercisable for a period of one year following the date of death.

If Mr. Parke should become permanently disabled (such that he could not perform his duties for 180 consecutive days or for 180 days in any period of 12 consecutive months), Parke Industries would have the right to terminate his employment, then any stock options for our common stock which were then already vested would be exercisable for a period of 90 days following such termination.

If Mr. Parke should terminate his employment prior to June 30, 2008 for reasons other than death, disability or uncured default by us under the agreement, then any vested stock options for our common stock as of the date of termination shall be exercisable for 90 days following the date of termination.

If Parke Industries should terminate Mr. Parke s employment prior to June 30, 2008, for any reason other than death, disability or Due Cause , or if Mr. Parke should choose to terminate his employment because Parke Industries defaulted in its obligations under the agreement and failed to cure such default after notice, then all unvested stock options which are scheduled to vest within one year of the date of termination will immediately vest. In addition, all such stock options and any previously vested stock options, would be exercisable for a period of one year following the date of termination. Additionally, Parke Industries will pay Mr. Parke, as severance compensation, (i) six months salary at his then current rate, in installments in accordance with Parke Industries regular payroll, plus (ii) any bonus earned as of the termination date, in accordance with the terms of such bonus, plus (iii) any accrued unused vacation (which will be paid on the next regular payroll date).

Due Cause is defined in Mr. Parke s agreement in terms substantially similar to those under David Asplund s employment agreement.

In addition to the foregoing, upon occurrence of a Change of Control all stock options granted to Mr. Parke by us pursuant to the agreement shall immediately vest and become exercisable. Change of Control shall be deemed to have occurred when (i) the Company is merged or consolidated with another entity which is not then controlled by us and, as a result of such merger or consolidation, at least 51% of our common stock is controlled by another entity, or (ii) a majority of our assets are sold or otherwise transferred to another entity that is not then controlled by or affiliated with us.

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Also effective on June 30, 2006, we, Parke Industries, LLC and Mr. Parke entered into a non-competition agreement which imposes on Mr. Parke non-competition obligations until June 30, 2008. This non-competition obligation is not separately compensated and was part of the consideration in the acquisition of Parke P.A.N.D.A. Corporation.

On July 11, 2006, Mr. Parke was awarded options to purchase up to 653,333 shares of our stock at $1.02 per share. The options vest in three approximately equal amounts, with 217,765 vesting on December 31, 2006, 217,764 vesting on December 31, 2007 and 217,764 vesting on December 31, 2008, in each case assuming that Mr. Parke continues to be employed by us on such date. Vesting of the options will accelerate upon termination for reasons other than due cause (defined similarly to the definition in his employment agreement), death, disability or resignation and upon a change of control. These options will expire on the earlier of July 11, 2016, or six months following the date that Mr. Parke is no longer our employee, unless his termination is for due cause (as defined in the option agreement) in which case they will expire immediately, or due to a change of control (as defined in the option agreement) in which case they will expire twelve months following the change of control. These options contain a cashless exercise provision permitting Mr. Parke to pay the purchase price for any shares acquired by exercising the option by surrendering to us a number of shares of common stock having an aggregate market value equal to the purchase price.

John P. Mitola

Effective January 1, 2003, we entered into an employment agreement with John Mitola for a three-year period ending on December 31, 2005. The agreement provided for a base salary $250,000 per year, but provided for a discretionary bonus of up to one hundred percent of his annual salary payable if he met or exceeded certain annual goals as established by the Board of Directors, and a guaranteed bonus of $250,000 upon our achievement of two consecutive calendar quarters of positive net income (as reflected in our quarterly reports filed with the Securities and Exchange Commission). The agreement also provided for a monthly automobile allowance of $550.00 and the reimbursement of Mr. Mitola s business-related expenses.

As part of the employment agreement, we granted to Mr. Mitola an option to purchase 50,000 shares of our common stock at a price per share of $12.60, which was equal to the average closing price of our common stock as measured over the 30 trading day period prior to the effective date of the contract. The option granted vested in amounts of 16,667 shares on each December 31st of 2003, 2004 and 2005, except on a change of control in which case all the options would have immediately vest. Except as specifically set forth in the employment agreement, such options are governed by our 2001 Stock Incentive Plan.

The employment agreement imposed on Mr. Mitola non-competition, non-solicitation and confidentiality obligations.

Mr. Mitola resigned from the Company in January 2006.

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POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL

The following table shows potential payments to the named individuals under existing contracts, agreements, plans or arrangements, whether written or unwritten, for various scenarios involving a change-in-control or termination of employment assuming a December 31, 2006 termination date and, where applicable, using the closing price of our common stock of $0.90 per share on that date.

Name	Voluntary Termination *(1)*	Involuntary Termination - Not For Cause *(2)*	Involuntary Termination - For Cause *(3)*	Change in Control *(4)*	Death *(5)*	Disability *(5)*
David R. Asplund	$ 0	$ 142,500	$ 0	$ 0	$ 0	$ 0
Jeffrey R. Mistarz	$ 4,038	$ 109,038	$ 4,038	$ 0	$ 4,038	$ 4,038
Daniel W. Parke	$ 19,231	$ 144,231	$ 19,231	$ 0	$ 19,231	$ 19,231
Leonard Pisano	$ 12,981	$ 312,981	$ 12,981	$ 0	$ 12,981	$ 12,981

(1) None of the listed persons are entitled to more than accrued but unpaid salary and vacation upon a voluntary termination of their employment.

(2) Under the terms of their employment contracts, Messrs. Asplund, Mistarz and Parke are entitled to any accrued but unpaid salary and vacation as well as six months severance pay for an involuntary termination of their employment without cause. Mr. Pisano would

be entitled to any accrued but unpaid salary and vacation and would be paid through May 3, 2008, the end of period covered under his employment contract.

(3) None of the listed persons are entitled to more than accrued but unpaid salary and vacation upon an involuntary termination for cause.

(4) None of the listed persons would be entitled to any payments upon a change of control unless they were involuntarily terminated without cause, but upon a change of control the unvested options held by Messrs. Asplund, Mistarz, Parke and Pisano would immediately vest. None of the options held by these individuals were in the money as of December 31, 2006.

(5) None of the listed persons are entitled to more than accrued but

unpaid salary and vacation upon their death or permanent disability, but upon a upon such an event the unvested options held by Messrs. Asplund, Mistarz, Parke and Pisano would immediately vest. None of the options held by these individuals were in the money as of December 31, 2006.

GRANTS OF PLAN-BASED AWARDS TABLE

The following table sets forth certain information with respect to options granted during or for the fiscal year ended December 31, 2006 to each named executive officer. There are no estimated future payouts under non-equity or equity incentive plan awards.

			Estimated Future Payouts Under Non-Equity Incentive Plan Awards			**Estimated Future Payouts Under Equity Incentive Plan Awards**						
(a)	**(b)**		**(c)**	**(d)**	**(e)**	**(f)**	**(g)**	**(h)**	**(i)**	**(j)**	**(k)**	**(l)**
Name	**Grant Date**	**Committee Action Date** *(1)*	**Thresh-old ($)**	**Target ($)**	**Maxi-mum ($)**	**Thresh-old (#)**	**Target (#)**	**Maxi-mum (#)**	**All Other Stock Awards: Number of Shares of Stock or Units (#)**	**All Other Option Awards: Number of Securities Underlying Options (#)**	**Exercise or Base Price of Option Award ($/sh)**	**Grant Date Fair Value of Stock and Option Awards ($)** *(3)*
Dave R. Asplund	01/23/2006	01/22/2006								33,333	$9.30	$ 184,665
	06/12/2006	01/22/2006								66,667	$9.30	$ 65,334
	06/12/2006	01/22/2006								100,000	$0.96	$ 174,000
	06/12/2006	01/22/2006								100,000	*(2)*	$ 176,000
	07/11/2006	07/05/2006								1,500,000	$1.02	$1,155,000
	07/11/2006	07/05/2006								2,800,000	*(2)*	$2,226,000
Anna Baluyot	07/11/2006	07/05/2006								75,000	$1.02	$ 56,250
Jeffrey R. Mistarz	07/11/2006	07/05/2006								750,000	$1.02	$ 585,000
	08/15/2006	08/15/2006								300,000	$1.00	$ 211,000
John P. Mitola												
Daniel W. Parke	07/03/2006	06/29/2006								46,667	$1.10	$ 37,334
	07/11/2006	07/05/2006								653,333	$1.02	$ 509,600

Leonard Pisano	07/11/2006	07/05/2006	1,350,000	$ 1.02	$ 1,053,000

(1) On January 22, 2006, the Compensation Committee approved the issuance to Mr. Asplund of options to purchase 300,000 shares of common stock at $9.30, which was the average closing price of our common stock for the 30-day period prior to January 22, 2006, but the grant of options to acquire 66,667 shares was contingent on receiving approval from our stockholders of an increase in the number of options issuable under our 2001 Incentive Stock Plan. Our stockholders approved the increase at our Annual Meeting of Stockholders held on June 7, 2006, and the options were issued on June 11, 2006 with the $9.30 exercise price established by

the Compensation Committee in January 2006.

(2) The price of these options was set by the Board of Directors on January 26, 2007 at $0.96 per share. This price was determined to be the higher of (x) the average closing price of our common stock as measured over the 30 trading day period prior to January 22, 2007, or (y) the closing price of our common stock on January 22, 2007. The $0.96 price represents the average closing price of our common stock as measured over the 30 trading day period prior to January 22, 2007.

(3) The exercise price was not lower than the market price of our common stock on the grant date for any of the options listed, except that the

exercise price for the options granted to Mr. Asplund on June 12, 2006 were set during January 2007 based on the formula described in footnote (1) above.

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OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

The following table includes certain information with respect to the value of all unexercised options previously awarded to the named executive officers at December 31, 2006.

	Option Awards					Stock Awards			
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested
David R. Asplund		2,800,000		*(1)*	07/11/2016				
	1,500,000			$ 1.02	07/11/2016				
		100,000		$ 0.96	01/23/2016				
		100,000		*(1)*	01/23/2016				
		100,000		$ 9.30	01/23/2016				
	1,112	555		$ 15.00	06/10/2015				
	1,666			$ 27.75	06/10/2014				
	1,667			$ 15.00	06/10/2013				
	5,000			$ 17.55	06/10/2012				
Anna Baluyot	3,334			$ 17.25	12/27/2014				
	5,000			$ 35.40	01/01/2014				
	666			$ 30.75	12/30/2013				
Jeffrey R. Mistarz	100,000	200,000		$ 1.00	08/15/2016				
	250,000	500,000		$ 1.02	07/11/2016				
	26,667			$ 15.00	12/31/2012				

	13,332		$ 105.00	12/31/2009
Daniel W. Parke	217,765	435,568	$ 1.02	07/11/2016
	15,555	31,112	$ 1.10	06/30/2016
	3,334	1,666	$ 15.00	10/05/2015
Leonard Pisano	450,000	900,000	$ 1.02	07/11/2016
	13,889	17,778	$ 15.00	05/03/2015
John P. Mitola	66,667		$ 105.00	12/31/2009

(1) The option price on these options was set at $0.96 per shares by the Board of Directors on January 26, 2007. This price was determined to be the higher of (x) the average closing price of our common stock as measured over the 30 trading day period prior to January 22, 2007, or (y) the closing price of our common stock on January 22, 2007. The $0.96 price represents the average closing price of our common stock as measured over the 30 trading day period prior to January 22, 2007.

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Stock Options and Incentive Compensation

During the Company s annual meeting of stockholders held on August 30, 2001, our stockholders approved the adoption of the 2001 Stock Incentive Plan (the Plan), which provided that up to 53,333 shares of our common stock, par value $0.0001, may be issued under the Plan to certain of our employees and to consultants and directors who are not employees. In addition, the Plan provides for an additional number of shares of common stock to be reserved for issuance under the Plan on January 1 of each succeeding year, beginning January 1, 2002, in an amount equal to the lesser of (i) 5% of the number of outstanding shares of common stock, or (ii) 33,333 shares. At the annual meeting held on June 7, 2006, our stockholders approved an amendment to the Plan to increase the number of shares reserved for issuance under the plan by 400,000 shares and to increase the additional shares issued each January 1st to the lesser of (i) 5% of the number of outstanding shares of common stock, or (ii) 133,333 shares. (All quantities have been adjusted for the reverse split announced in June 2006.) The awards to be granted under the Plan may be incentive stock options eligible for favored treatment under Section 422 of the Internal Revenue code of 1986, as amended from time to time, or non-qualified options that are not eligible for such treatment, or stock of the Company, which may be subject to contingencies or restrictions, as well as grants of stock appreciation rights or grants of shares of common stock. Approximately 78 employees and officers of the Company and our subsidiaries are currently eligible to participate in the Plan.

As of December 31, 2006, there were 620,000 shares of common stock reserved under the Plan. We granted options to purchase 350,667 under the Plan during 2006, and options to purchase 450,138 shares were outstanding under the Plan as of December 31, 2006. During 2006 we issued options to purchase 9,666,667 shares outside of the Plan to employees and directors. 2006 grants to directors are described under Compensation of Directors.

The following information reflects certain information about our equity compensation plans as of December 31, 2006:

	Equity Compensation Plan Information		
	(a)	(b)	(c)
Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders *(1)*	450,138	$ 6.71	169,862
Equity compensation plans not approved by security holders *(2)(3)*	10,609,466	$ 3.92	
Total	11,059,604	$ 4.03	169,862

(1) The 2001 Employee Stock

Incentive Plan (Plan), which was originally approved by stockholders at our 2001 Annual Meeting of Stockholders, was amended at our 2006 Annual Meeting of Stockholders. The amendment to the Plan increased the number of shares reserved for issuance under the Plan to 620,000 shares of our common stock, which automatically increases by 133,333 shares on each January 1, beginning January 1, 2007. (All prices and quantities are adjusted for the 1 for 15 reverse stock split announced during June 2006.)

(2) Prior to the adoption of the 2001 Employee Stock Incentive Plan, we had granted to certain of our employees stock options on a discretionary basis. These grants were not

made pursuant to any formal plan. Grants made to employees pursuant to this method were discontinued following adoption of the Plan.

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

COMPENSATION OF DIRECTORS

Effective April 1, 2000, we adopted a stock option plan for all non-employee directors that is separate and distinct from the 2001 Stock Incentive Plan. The plan was amended on July 11, 2006 to provide that eligible directors receive an initial option grant upon being appointed to our Board of Directors to purchase 100,000 shares of our common stock, and a grant of options to purchase an additional 50,000 shares on the first day of January beginning on the second January following the date the director became an eligible director. These options have an exercise price equal to the closing price of our common stock on the grant date and a term of ten years. The initial options vest on first day of January following the initial grant date or six months following the initial grant date, whichever is later, if the individual is still a director on the vesting date. All future grants vest in two equal amounts, one amount on the grant date and the balance on the anniversary of the grant date, if the individual is still a member of the Board of Directors on such anniversary date.

We granted options to purchase 520,001 shares under the directors stock option plan during 2006, and options to purchase 605,559 shares were outstanding under this plan as of December 31, 2006.

Directors who are also our employees receive no additional compensation for their services as directors.

DIRECTOR COMPENSATION TABLE

The following table provides compensation information for the year ended December 31, 2006 for each member of our Board of Directors.

(a) Name	(b) Fees Earned or Paid in Cash ($)	(c) Stock Awards ($)	(d) Option Awards ($) *(1)(2)*	(e) Non-Equity Incentive Plan Compensation ($)	(f) Change in Pension Value and Nonqualified Deferred Compensation Earnings	(g) All Other Compensation ($)	(h) Total ($)
David R. Asplund *(3)*							
Gregory T. Barnum			103,097				103,097
William R. Carey, Jr.			103,097			62,500*(4)*	165,597
Joseph F. Desmond *(5)*							
Richard P. Kiphart			98,857				98,857
Daniel W. Parke *(6)*							

Gerald A. Pientka	85,501	85,501
David W. Valentine	85,127	85,127

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(1) Amounts represent the compensation cost recognized during 2006 of stock awards granted in and prior to 2006 based on the grant date fair value recognized over the requisite service period in accordance with Statement of Financial Accounting Standards (SFAS) No. 123(R). The value weighted-average significant assumptions used to determine the grant date fair value are as follows:

Significant Assumption (value weighted-average)	2006	2005	2004
Risk-free rate	5.02%	2.27%	1.04%
Dividend yield			
Expected volatility	90%	65%	72%
Expected life (years)	5.6	9.1	9.1

(2) The following options were granted to directors during 2006:

	Options Awarded	Grant Date Fair Value
Gregory T. Barnum	105,000	$114,548
William R. Carey, Jr.	105,000	$114,548
Richard P. Kiphart	105,000	$106,481
Gerald A. Pientka	101,667	$ 83,218
David W. Valentine	103,334	$ 85,796

(3) See 2006 Summary Compensation Table for disclosure related to David R. Asplund who is also our Chief Executive Officer.

(4) We retained Corporate Resource Development, a company owned by Mr. Carey, on two occasions during 2006 to provide sales training and sales and marketing consulting services. In exchange for these services, we paid Corporate Resource Development $62,500.

(5) Mr. Desmond joined our Board of Directors in January 2007.

(6) See 2006 Summary Compensation Table for disclosure related to Daniel W. Parke, who is also our President and Chief Operating

Officer and the President of Parke Industries, LLC, one of our subsidiaries.

Compensation Committee Interlocks and Insider Participation

No member of our Board s Compensation Committee has served as one of our officers or employees at any time. None of our executive officers serve as a member of the compensation committee of any other company that has an executive officer serving as a member of our Board of Directors. None of our executive officers serve as a member of the board of directors of any other company that has an executive officer serving as a member of our Board s Compensation Committee.

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SECURITY OWNERSHIP OF PRINCIPAL STOCKHOLDERS AND MANAGEMENT

The following tables list certain information, as of April 23, 2007, regarding the beneficial ownership of our outstanding common stock by (1) the persons known to us to beneficially own greater than 5% of each class of our voting securities, (2) each of our directors and named executive officers, and (3) our directors and executive officers, as a group. Beneficial ownership is determined in accordance with the rules of the SEC. Except as otherwise noted, (1) the persons or entities named have sole voting and investment power with respect to all shares shown as beneficially owned by them and (2) the address of each person listed in the following table (unless otherwise noted) is c/o Lime Energy Co., 1280 Landmeier Road, Elk Grove Village, Illinois 60007-2410.

Beneficial Owners of Greater Than 5% of Each Class of Our Common Stock:

Name	***Common Shares* Directly Held**	**Common Shares Issuable Upon Exercise of Warrants**	**Common Shares Issuable Upon Exercise of Options *(1)***	**Total**	**%**
Augustine Fund LP *(2)*	2,662,333	18,125		2,680,458	5.002%
Cinergy Ventures II *(3)*	3,097,646	45,625	3,333*(4)*	3,146,604	5.869%
Richard P. Kiphart	14,836,672	56,445	128,334	15,021,451	27.946%
Leaf Mountain Company *(5)(6)*	3,367,734			3,367,734	6.287%
Daniel R. Parke	5,000,000		252,210	5,252,210	9.759%
SF Capital Partners Ltd. *(7)*	4,306,267	*(8)*		4,306,267	8.039%

Directors and Executive Officers:

Name	***Common Shares* Directly Held**	**Common Shares Issuable Upon Exercise of Warrants**	**Common Shares Issuable Upon Exercise of Options *(1)***	**Total**	**%**
Directors and Executive Officers					
David Asplund	1,923,365*(9)*	4,852*(9)*	1,710,000	3,638,217	6.581%
Gregory Barnum			128,334	128,334	*
William Carey		150,000	128,334	278,334	*
Joseph Desmond					*
Richard P. Kiphart	14,836,672	56,445	128,334	15,021,451	27.946%
Jeffrey R. Mistarz	947		389,999	390,946	*
Daniel R. Parke	5,000,000		252,210	5,252,210	9.759%
Gerald A. Pientka *(5)*	3,123		139,445	142,568	*
Leonard Pisano	40,700		472,778	513,478	*
David W. Valentine	355,900		132,778	488,678	*
All directors and executive officers as a group (10 persons)**	22,160,707	211,297	3,482,212	25,854,216	45.153%

*

Denotes beneficial ownership of less than 1%.

** Eliminates duplication

(1) Represents options to purchase common stock exercisable within 60 days.

(2) The controlling members, directors and officers, all of whom are Thomas Duszynski, Brian Porter and John Porter, may be deemed to share power to vote or dispose of the shares held by Augustine Fund, L.P. The business address of Augustine Fund, L.P. is 141 West Jackson Blvd., Suite 2182, Chicago, Illinois 60604.

(3) Cinergy Technologies, Inc. is a wholly owned subsidiary of Cinergy Corp. and is also the sole member of Cinergy Ventures II, LLC. The business address of Cinergy Ventures II, LLC is 139 East Fourth Street, Cincinnati, Ohio 45202. Cinergy is a publicly owned entity. Greg Wolf, a vice president of Cinergy Ventures, has the authority to vote

and dispose of the shares held by Cinergy Ventures II, LLC.

(4) Reflects stock options awarded pursuant to the Directors Stock Option Program to former directors of the Company who were employees of Cinergy Ventures II, LLC. The policies of Cinergy Ventures II provide that director compensation be paid to the Cinergy Ventures II rather than to the individual.

(5) Mr. Pientka, who is one of our directors, was also a member of Leaf Mountain Company, LLC until January 2007.

(6) Mr. Jiganti is the Manager of Leaf Mountain Company and has the sole decision-making power with respect to Leaf Mountain Company s investment in Lime Energy.

The business address of Leaf Mountain Company, LLC is 190 South LaSalle Street, Suite 1700, Chicago, Illinois 60603.

(7) SF Capital Partners Ltd. is a British Virgin Island company. Staro Asset Management, L.L.C., a Wisconsin limited liability company, acts as investment manager and has sole power to direct the management of SF Capital Partners. Through Staro Asset Management, Messrs. Michael A. Roth and Brian J. Stark possess sole voting and dispositive power over all shares owned by SF Capital Partners, but disclaim beneficial ownership of such shares. The mailing address for SF Capital Partners is c/o Stark Offshore Management, LLC, 3600 South Lake Drive, St.

Francis, WI 53235.

(8) Excludes warrants to purchase 42,813 shares of common stock which contain provisions known as exercise caps which prohibit the holder of the warrants (and its affiliates) from exercising such warrants to the extent that giving effect to such exercise, such holder would beneficially own in excess of 4.999% and 9.999% of our outstanding common stock, as the case may be. The holder can waive the 4.999% limit, but such waiver will not become effective until the 61st day after such notice is delivered to us, and these limits will not restrict the number of shares of common stock which a holder may receive or beneficially own in order to determine the amount of securities or other

consideration that such holder may receive in the event of a merger or other business combination or reclassification involving the Company. The table set forth above reflects the operation of such exercise caps in that we have not included 42,813 shares of common stock issuable pursuant to such warrants as SF Capital Partners has advised us that it does not beneficially own such shares due to the fact that it cannot exercise its right to purchase these shares at this time. In the absence of such caps, SF Capital would be able to purchase all the shares issuable upon exercise of these warrants and would have a beneficial ownership percentage of 8.113%.

(9) Includes 6,766 shares of common stock and warrants to purchase 2,000

shares of common stock held by Delano Group Securities, LLC, of which Mr. Asplund is the principal owner.

WHERE YOU CAN FIND MORE INFORMATION

We file reports, proxy statements and other information with the SEC. Information filed with the SEC by us can be inspected and copied at the public reference room maintained by the SEC at Headquarters Office, 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You may also obtain copies of this information by mail from the Public Reference Section of the SEC, Headquarters Office, 100 F Street, N.E., Room 1580, Washington, D.C. 20549, at prescribed rates. Further information on the operation of the SEC s public reference room in Washington, D.C. can be obtained by calling the SEC at 1-800-SEC-0330.

The SEC also maintains a web site that contains reports, proxy statements and other information about issuers, such as us, who file electronically with the SEC. The address of that site is http://www.sec.gov.

Our web site address is http://www.lime-energy.com. The information on our web site, however, is not, and should not be deemed to be, a part of this prospectus.

FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm

Lime Energy Co.
Elk Grove Village, Illinois

We have audited the accompanying consolidated balance sheets of Lime Energy Co. as of December 31, 2006 and 2005, and the related consolidated statements of operations, stockholders equity and cash flows for each of the three years in the period ended December 31, 2006. We have also audited the schedule in the accompanying index. These financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lime Energy Co. at December 31, 2006 and 2005, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

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

As discussed in Note 4 to the consolidated financial statements, effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123R, Share- Based Payments using the modified prospective transition method.

/s/ BDO SEIDMAN, LLP
Chicago, Illinois
March 30, 2007

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Lime Energy Co.
Consolidated Balance Sheets

December 31,	2006	2005
Assets		
Current Assets		
Cash and cash equivalents	$ 4,663,618	$ 4,229,150
Accounts receivable, less allowance for doubtful accounts of $366,000 and $325,000 at December 31, 2006 and 2005, respectively	2,825,947	1,747,019
Inventories (Note 7)	614,491	1,457,789
Advances to suppliers	132,083	324,677
Costs and estimated earnings in excess of billings on uncompleted contracts		28,462
Prepaid expenses and other	279,017	207,480
Total Current Assets	8,515,156	7,994,577
Net Property and Equipment (Note 8)	1,201,008	2,514,196
Long Term Receivables	102,904	
Deferred Financing Costs, net of amortization of $680,100 at December 31, 2005 (Note 14)		299,964
Intangibles, net of amortization of $1,681,771 and $471,765 at December 31, 2006 and 2005, respectively (Notes 4 and Note 9)	5,126,829	1,960,835
Cost in Excess of Assets Acquired	10,450,968	4,329,402
	$25,396,865	$17,098,974

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Lime Energy Co.
Consolidated Balance Sheets

December 31,	**2006**	**2005**
Liabilities and Stockholders Equity		
Current Liabilities		
Line of credit (Note 13)	$	$ 2,000,000
Notes payable (Note 15)	150,000	150,000
Current maturities of long-term debt (Notes 14 and 16)	46,699	651,313
Accounts payable	1,344,725	913,369
Accrued expenses (Note 11)	1,251,777	1,228,765
Deferred revenue	967,446	984,728
Customer deposits	1,148,090	1,419,919
Total Current Liabilities	4,908,737	7,348,094
Deferred Revenue	748,980	1,044,524
Long-Term Debt, less current maturities net of unamortized discount of $0 and $898,409 as of December 31, 2006 and 2005, respectively (Notes 14 and 16)	520,392	4,328,719
Deferred Tax Liability	1,034,000	
Total Liabilities	7,212,109	12,721,337
Commitments (Note 18 and 20)		
Stockholders Equity (Notes 21, 22, 23, 24 and 25)		
Preferred stock, $.01 par value; 5,000,000 shares authorized, Series E 0 and 236,254 issued and outstanding as of December 31, 2006 and December 31, 2005, respectively (liquidation value of $0 and $47,250,800 at December 31, 2006 and December 31, 2005, respectively)		2,363
Common stock, $.0001 par value; 200,000,000 shares authorized, 49,786,611 and 3,386,465 issued as of December 31, 2006 and December 31, 2005, respectively	4,979	339
Additional paid-in capital	95,025,912	64,773,556
Accumulated deficit	(76,846,135)	(60,398,621)
Total Stockholders Equity	18,184,756	4,377,637
	$ 25,396,865	$ 17,098,974

See accompanying notes to consolidated financial statements.

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Lime Energy Co.
Consolidated Statements of Operations

	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2004
Revenue	$ 8,143,624	$ 3,693,429	$ 733,630
Cost of sales (includes reserve for obsolete inventory of $578,442 and $35,078 in the years ended December 31, 2006 and 2005)	6,931,294	3,691,854	862,366
Gross profit (loss)	1,212,330	1,575	(128,736)
Selling, general and administrative (includes share based compensation expense of $4,532,001, $0 and $0 for the years ended December 31, 2006, 2005 and 2004, respectively)	12,165,700	5,363,503	4,234,240
Amortization of intangibles (Note 9)	1,210,006	471,765	
Impairment loss (Note 10)	1,183,525	242,830	
Operating loss	(13,346,901)	(6,076,523)	(4,362,976)
Other Income (Expense)			
Interest income	194,182	58,737	22,505
Interest expense (Notes 13, 14 and 17)	(3,273,370)	(602,990)	(648,554)
Total other income (expense)	(3,079,188)	(544,253)	(626,049)
Loss from continuing operations before discontinued operations	(16,426,089)	(6,620,776)	(4,989,025)
Discontinued Operations:			
Loss from operation of discontinued business	(21,425)	(251,962)	(170,337)
Net Loss	(16,447,514)	(6,872,738)	(5,159,362)
Preferred Stock Dividends (Note 24)	(24,347,725)	(1,851,345)	(4,639,259)

Net Loss Available to Common Shareholders	**$**	**(40,795,239)**	**$**	**(8,724,083)**	**$**	**(9,798,621)**
Basic and diluted loss per common share from continuing operations	**$**	**(1.52)**	**$**	**(2.65)**	**$**	**(3.62)**
Discontinued operations		**0.00**		**(0.08)**		**(0.06)**
Basic and Diluted Loss Per Common Share	**$**	**(1.52)**	**$**	**(2.73)**	**$**	**(3.68)**
Weighted Average Common Shares Outstanding (Note 25)		**26,908,608**		**3,190,664**		**2,660,092**

See accompanying notes to consolidated financial statements.

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Lime Energy Co.
Consolidated Statements of Stockholders Equity

ommon Shares	Common Stock	Series A Preferred Shares	Series A Preferred Stock	Series C Preferred Shares	Series C Preferred Stock	Series D Preferred Shares	Series D Preferred Stock	Series E Preferred Shares	Series E Preferred Stock	Additional Paid-in Capital	Accum la Def
289,468	**$ 229**	**2,396,590**	**$ 23,966**	**233,614**	**$ 2,336**	**157,769**	**$ 1,578**		**$**	**$ 51,379,344**	**$ (48,366,**
333,333	33									10,089,574	
130,447	13	(145,000)	(1,450)					(5,067)	(51)	1,488	
		(514,375)	(5,144)			(24,087)	(241)			(6,994,621)	
		(1,737,215)	(17,372)	(233,614)	(2,336)	(133,682)	(1,337)	210,451	2,105	18,940	
										(1,636,780)	
								16,368	164	1,636,616	
8,667	1									275,599	
12,333	1							3,000	30	460,969	
										72,500	

(74)								
								(5,159,
774,174	**$ 277**	**$**	**$**	**$**	**224,752**	**$ 2,248**	**$ 55,303,629**	**$ (53,525,**
416,666	42						5,413,171	
14,446	2				(2,167)	(22)	20	
166,148	16						2,691,591	
							(1,366,900)	
					13,669	137	1,366,763	
							920,000	
15,031	2						125,482	
							319,800	
								(6,872,

386,465	**$ 339**	**$**	**$**	**$**	**236,254**	**$ 2,363**	**$ 64,773,556**	**$ (60,398,**
875,000	1,787						17,758,107	
							(698,000)	
					6,980	70	697,930	
695,879	2,170				(243,234)	(2,433)	263	
(14,194)	(1)						(193,742)	
000,000	500						4,999,500	
500,000	50						479,950	
950,865	95						951,882	
							950,865	
161,096	16						185,244	

231,500	23					266,202	
						25,200	
						4,828,955	
							(16,447,
786,611	**$ 4,979**	**$**	**$**	**$**	**$**	**$ 95,025,912**	**$ (76,846,**

See accompanying notes to consolidated financial statements.

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Lime Energy Co.
Statements of Cash Flows

	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2004
Cash Flows From Operating Activities			
Net loss	$ (16,447,514)	$ (6,872,738)	$ (5,159,362)
Adjustments to reconcile net loss to net cash used in operating activities, net of assets acquired and disposed of:			
Provision for bad debts	105,442	96,872	5,865
Share based compensation	4,828,955		
Depreciation and amortization	1,386,597	601,869	58,878
Amortization of deferred financing costs	299,964	93,774	382,710
Amortization of issuance discount	898,409	71,639	191,727
Liquidated damages satisfied through issuance of common stock	185,260		
Termination of post repayment interest and interest converted to common stock	274,747		
Beneficial value of adjustment in revolver conversion price	950,865		
Issuance of shares and warrants in exchange for services received	25,200	319,800	72,500
Accrued interest converted to common stock			4,736
Loss on disposal of fixed assets	115,914	11,743	
Asset impairment	1,183,525		
Provision for inventory obsolescence	568,558	19,232	
Goodwill impairment		242,830	
Changes in assets and liabilities, net of dispositions			
Accounts receivable	(279,822)	(484,685)	377,842
Inventories	519,491	(121,254)	(334,628)
Advances to suppliers	192,594	148,012	
Other current assets	72,537	(81,604)	(143,971)
Accounts payable	(359,331)	(1,299,561)	(14,401)
Accrued liabilities	(300,017)	2,136	26,101
Deferred revenue	(196,310)	401,050	4,112
Customer deposits	(273,149)	(105,757)	488,833
Net cash used in operating activities	(6,248,085)	(6,956,642)	(4,039,058)
Cash Flows From Investing Activities			
Acquisitions (including acquisition costs), net of cash acquired	(4,098,377)	(1,632,972)	
Sale of discontinued operations	(83,586)		
Purchase of property and equipment	(82,967)	(548,874)	(149,603)

Net cash (used in) provided by investing activities	(4,264,930)	(2,181,846)	(149,603)
Cash Flows From Financing Activities			
Borrowings (payments) on line of credit	(1,456,545)	2,000,000	
Proceeds from long-term debt		5,000,000	
Payments on long-term debt	(5,355,865)	(541,547)	(39,155)
Preferred stock redemption			(7,000,006)
Proceeds from issuance of preferred stock			11,000,000
Proceeds from issuance of common stock	17,875,000	5,625,000	
Costs related to stock issuances	(115,107)	(211,787)	(910,393)
Cash paid for deferred financing costs		(293,836)	
Proceeds from exercise of warrants			461,000
Net cash provided by financing activities	10,947,483	11,577,830	3,511,446
Net Increase (Decrease) in Cash and Cash Equivalents	434,468	2,439,342	(677,215)
Cash and Cash Equivalents, at beginning of period	4,229,150	1,789,808	2,467,023
Cash and Cash Equivalents, at end of period	$ 4,663,618	$ 4,229,150	$ 1,789,808

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Lime Energy Co.
Statements of Cash Flows

	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2004
Supplemental Disclosures of Cash Flow Information			
Cash paid during the period for interest continuing Operations (including prepayment penalties)	$ 911,000	$ 214,200	$ 82,400
Cash paid during the period for interest discontinued operations	0	400	600
Stock, warrants and options issued in exchange for services received	25,200	319,800	72,500
Accrual satisfied through the issuance of common stock	7,410		4,736
Inventory transferred to fixed assets (VNPP assets)			762,243
Satisfaction of accrued dividends on Series A Preferred Stock through the issuance of 5,407 shares of Series E Preferred stock during the year ended December 31, 2004 and 225,398 shares of Series A Preferred stock during the year ended December 31, 2003			540,705
Satisfaction of accrued dividends on Series C Preferred Stock through the issuance of 532 shares of Series E Preferred stock during the year ended December 31, 2004			53,206
Satisfaction of accrued dividends on Series D Preferred Stock through the issuance of 359 shares of Series E Preferred stock during the year ended December 31, 2004			35,932
Satisfaction of accrued dividends on Series E Preferred Stock through the issuance of 6,980, 13,669 and 10,070 shares of Series E Preferred stock during the years ended December 31, 2006, 2005 and December 31, 2004, respectively	698,000	1,366,900	1,006,937
Conversion of convertible debt to common stock	$ 943,455	$	$ 270,864

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 year ended December 31, 2006.

The holder of the Company s revolving convertible note converted the outstanding balance of $943,455 along with $7,410 of accrued interest thereon into 950,865 shares of the Company s common stock on June 29, 2006.

The Company satisfied $161,096 of liquidated damages for failing to register common stock with the SEC in connection with the $5 million term loan which the Company issued in November 2005, through the issuance on June 29, 2006 of 161,096 shares of its common stock to the holder of the note.

On June 29, 2006, in exchange for receiving 231,500 shares of the Company s common stock, the holder of the $5 million term loan issued in November 2005 waived the requirement that the company pay a portion of the cash flow generated by certain projects for a period of 5 years following the repayment of the note.

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Lime Energy Co.
Statements of Cash Flows

Supplemental Disclosures of Noncash Investing and Financing Activities:
On June 30, 2006, the Company purchased Parke P.A.N.D.A. Corporation for $2,863,895 in cash (net of cash acquired of $1,710 and including transaction costs of $145,605), and 5,000,000 shares of Lime Energy 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	**3,247,000**
Cost in excess of assets acquired	**5,584,874**
Total assets acquired	**9,773,843**
Line of credit	**(400,000)**
Accounts payable	**(338,536)**
Accrued expenses	**(89,571)**
Notes payable	**(45,763)**
Other current liabilities	**(368)**
Deferred tax liability	**(1,034,000)**
Total liabilities assumed	**(1,908,238)**
Net assets acquired	**7,865,605**
Less valuation of shares issued for acquisition	**(5,000,000)**
Acquisition costs	**(145,605)**
Total cash paid	**$ 2,720,000**

On September 27, 2006, the Company purchased Kapaida Consulting, Inc. for $1,234,482 in cash (net of cash acquired of $47,329 and including transaction costs of $31,811), and 500,000 shares of Lime Energy common stock. The related assets and liabilities at the date of acquisition were as follows:

Cash	**$ 47,329**
Accounts receivable	**574,160**
Inventory	**111,962**
Other current assets	**122,451**
Long term receivables	**17,713**
Property and equipment	**16,430**
Identifiable intangible assets	**1,129,000**
Cost in excess of assets acquired	**710,433**
Total assets acquired	**2,729,478**
Accounts payable	**(657,080)**
Accrued expenses	**(299,316)**

Other current liabilities	**(11,271)**
Total liabilities assumed	**(967,667)**
Net assets acquired	**1,761,811**
Less valuation of shares issued for acquisition	**(480,000)**
Acquisition costs	**(31,811)**
Total cash paid	**$ 1,250,000**

See accompanying notes to consolidated financial statements.

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Lime Energy Co.
Notes to Consolidated Financial Statements

Note 1 Description of Business

Lime Energy Co. (the Company), a Delaware corporation, is a developer, manufacturer and integrator of energy savings technologies and services. The Company is made up of four separate companies, comprising two distinct business segments: Lime Energy Co. (Lime Energy) and Maximum Performance Group, Inc. (MPG) comprise the Energy Technology segment and Parke Industries, LLC (Parke) and Kapadia Energy Services, Inc. (Kapadia) comprise the Energy Services segment. Lime Energy is located in Elk Grove Village, Illinois, a suburb of Chicago. MPG is headquartered in San Diego with a sales office in New York City. Parke is headquartered in Glendora, California with several sales offices in northern California and Kapadia is headquartered in Peekskill, New York with an office in Ventura, California. In March 2006, the Company sold Great Lakes Controlled Energy Corporation (Great Lakes), which comprised the building control and automation control segment. In order to focus exclusively on its energy products and services the Company sold Great Lakes in March 2006.

Note 2 Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).

Note 3 Name Change

On September 13, 2006, the Company changed its name from Electric City Corp. to Lime Energy Co. by merging with a wholly owned subsidiary set up solely for the purpose of effecting the name change. In connection with the name change, the Company s ticker symbol changed from ELCY to LMEC effective on September 22, 2006.

Note 4 Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Lime Energy Co. and its wholly owned subsidiaries, Maximum Performance Group, Inc., Parke Industries LLC and Kapadia Energy Services, Inc. All significant intercompany balances and transactions have been eliminated.

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Lime Energy Co.
Notes to Consolidated Financial Statements

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Concentration of Risk

The Company s customers are primarily owners of, or tenants of, commercial and industrial buildings and distributors of its products. Three customers each accounted for approximately 13% of the Company s consolidated billings during the year ended December 31, 2006. Two customers accounted for approximately 37% and 11% of the Company s consolidated billings, respectively during the year ended December 31, 2005, while five customers accounted for 39%, 14%, 12%, 11% and 10% of the Company s consolidated revenue, respectively during the year ended December 31, 2004.

The Company purchases its materials from a variety of suppliers and continues to seek out alternate suppliers for critical components so that it can be assured that its sales will not be interrupted by the inability of a single supplier to deliver product. During the year ended December 31, 2006, one supplier accounted for approximately 12% of the Company s total purchases while no single supplier accounted for more than 10% of the Company s total purchases during the year ended December 31, 2005. During the year ended December 31, 2004, three suppliers accounted for 25%, 19% and 14% of the Company s total purchases, respectively.

The Company maintains cash and cash equivalents in accounts with a financial institution in excess of the amount insured by the Federal Deposit Insurance Corporation. The Company monitors the financial stability of this institution regularly and management does not believe there is significant credit risk associated with deposits in excess of federally insured amounts.

Allowance for Doubtful Accounts

The Company records an allowance for doubtful accounts based on specifically identified amounts that it believes to be uncollectible. If actual collections experience changes, revisions to the allowance may be required. After all attempts to collect a receivable have failed, the receivable is written off against the allowance. Based on the information available to it, the Company believes its allowance for doubtful accounts is adequate. However, actual write-offs might exceed the recorded allowance.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined utilizing the first-in, first-out (FIFO) method.

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Properties & Equipment

Property and equipment are stated at cost. For financial reporting purposes depreciation is computed over the estimated useful lives of the assets by the straight-line method over the following lives:

Buildings	39 years
Computer equipment	3 years
Office equipment	3 5 years
Furniture	5 10 years
Manufacturing equipment	3 5 years
Transportation equipment	3 5 years

Cost in Excess of Assets Acquired

Goodwill represents the purchase price in excess of the fair value of assets acquired in business combinations. Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets , requires the Company to assess goodwill for impairment at least annually in the absence of an indicator of possible impairment and immediately upon an indicator of possible impairment. During the fourth quarter of 2004, the Company completed its annual assessment of impairment regarding the goodwill recorded for its Building Control and Automation segment. That assessment, supported by independent appraisals of the fair value of the segment, did not identify any impairment. However, the 2005 appraisal, made using customary valuation methodologies, including discounted cash flows and fundamental analysis, did reveal a impairment. Further supporting this assessment, in February 2006, the Company signed a letter of intent to sell the segment for an amount below the carrying value of the reporting unit. The decline in fair value of the Building Control and Automation segment was primarily the result of the segment failing to meet earnings expectations, due in part to strong competition in its markets. As a result of this decline in fair value, the Company recorded an impairment loss of $242,830 during the year ended December 31, 2005.

During the fourth quarter of 2006, the Company with the assistance of a third party valuation expert, updated its projections for its Energy Technology business and estimated the fair value based on the discounted current value of the estimated future cash flows. It then compared the implied fair value of the reporting unit to its carrying value and determined that the value of the goodwill was not impaired. It is possible that upon completion of future impairment tests, as the result of changes in facts or circumstances, the Company may have to take additional charges to recognize a further write-down of the value of its acquisitions to their estimated fair values.

Deferred Financing Costs

The Company capitalized as deferred financing costs $980,064 of expense incurred in arranging its convertible revolving credit facility and convertible term loans. These deferred financing costs were being amortized over the life of the related convertible term loan using the effective interest method. On June 29, 2006 the Company prepaid the outstanding balance on its two convertible term loans and Laurus Master Fund, Ltd, the holder of the convertible notes, elected to convert the outstanding balance of the convertible revolving credit facility into common stock. Upon the repayment and conversion of these notes the Company was required to recognize as interest expense the remaining unamortized balances of the capitalized issuance costs and the debt discount of $231,281 in June 2006. Amortization of the deferred financing costs included in interest expense totaled $299,964, $93,774 and $382,710 in 2006, 2005 and 2004, respectively.

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Impairment of Long-Lived Assets

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

Revenue Recognition

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

The Company accounts for revenue on most of its long-term contracts on the completed contract method, whereby revenue is recognized once the project is substantially complete. However, revenue on long-term contracts is recorded under the percentage of completion method in conjunction with the cost-to-cost method of measuring the extent of progress toward completion consistent with the AICPA s Statement of Position 81-1 (SOP 81-1). Any anticipated losses on contracts are charged to operations as soon as they are determinable.

The timing of revenue recognition may differ from contract payment schedules resulting in revenues that have been earned but not yet billed. These amounts are recorded on the balance sheet as Costs and estimated earnings in excess of billings on uncompleted contracts. The Company had costs and estimated profits in excess of billings on long-term jobs of $0 and $28,462 at December 31, 2006 and 2005, respectively. Billings on contracts that do not meet the Company s revenue recognition policy requirements for which it has been paid or has a valid account receivable are recorded as deferred revenue. Deferred revenue for billings that did not meet the Company s revenue recognition policies totaled $294,430 and $589,080 as of December 31, 2006 and 2005, respectively.

The Company s MPG subsidiary often bundles contracts to provide monitoring services and web access with the sale of its eMAC hardware. As a result, these sales are considered to be contracts with multiple deliverables which at the time the hardware is delivered and installed includes undelivered services essential to the functionality of the product. Accordingly, the Company defers the revenue for the product and services and the cost of the equipment and installation and recognizes them over the term of the monitoring contract. The monitoring contracts vary in length from 1 month to 5 years. Deferred revenue includes $1,421,996 and $1,440,172 as of December 31, 2006 and 2006, respectively, related to these contracts.

Shipping and Handling Costs

The Company classifies freight costs billed to customers as revenue. Costs related to freight are classified as cost of sales.

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Lime Energy Co.
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Research and Development Costs

Research and development costs are charged to operations when incurred and are included in selling, general and administrative expenses. Total research and development costs charged to operations were approximately $535,000, $395,000, and $150,000 for the periods ended December 31, 2006, 2005 and 2004, respectively.

Advertising, Marketing and Promotional Costs

Expenditures on advertising, marketing and promotions are charged to operations in the period incurred and totaled $2,000, $7,000 and $2,000 for the periods ended December 31, 2006, 2005 and 2004, respectively.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred income taxes are recognized for the tax consequences in future years of the differences between the tax basis of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable earnings. Valuation allowances are established when necessary to reduce deferred tax assets to the amount more likely than not to be realized.

Net Loss Per Share

The Company computes loss per share under Statement of Financial Accounting Standards No. 128, Earnings Per Share. The statement requires presentation of two amounts; basic and diluted loss per share. Basic loss per share is computed by dividing the loss available to common stockholders by the weighted average common shares outstanding. Diluted earnings per share would include all common stock equivalents unless anti-dilutive. The Company has not included the outstanding options, warrants, or convertible preferred stock as common stock equivalents because the effect would be antidilutive.

The following table sets forth the weighted average shares issuable upon exercise of outstanding options and warrants and conversion of preferred stock and convertible debt that is not included in the basic and diluted net loss per share available to common stockholders:

December 31,	**2006**	**2005**	**2004**
Weighted average shares issuable upon exercise of outstanding options	**5,448,173**	**781,358**	**712,703**
Weighted average shares issuable upon exercise of outstanding warrants	**1,097,481**	**910,678**	**733,594**
Weighted average shares issuable upon conversion of preferred stock	**760,641**	**1,519,209**	**1,536,382**
Weighted average shares issuable upon conversion of convertible debt	**176,904**	**157,225**	**23,845**
Total	**7,483,199**	**3,368,470**	**3,006,524**

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Fair Value of Financial Instruments

The carrying amounts reported in the consolidated balance sheets for cash, accounts receivable, accounts payable and accrued expenses approximate fair value because of the short-term nature of these amounts. The Company s long-term debt approximates fair value based on instruments with similar terms.

Stock-based Compensation

The Company has a stock incentive plan that provides for stock-based employee compensation, including the granting of stock options and shares of restricted stock, to certain key employees. The plan is more fully described in Note 26. Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123(R), Share-based Payment (SFAS 123(R)), which requires, among other things, that compensation expense be recognized for employee stock options. Prior to the adoption of SFAS 123(R), the Company accounted for stock compensation using the recognition and measurement principles of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. Under that method, compensation expense was recorded only if the current market price of the underlying stock on the date of grant exceeded the option exercise price. Since stock options are granted at exercise prices that are greater than or equal the market value of the underlying common stock on the date of grant under the Company s stock incentive plan, no compensation expense related to stock options was recorded in the Consolidated Statements of Operations prior to January 1, 2006.

On January 1, 2006, the Company adopted SFAS No. 123(R), which requires companies to record stock compensation expense for equity-based awards granted, including stock options and restricted stock unit grants, over the service period of the equity-based award based on the fair value of the award at the date of grant. During 2006, the Company recognized $4,828,955 of stock compensation expense.

The following table illustrates the effect on the net loss and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based compensation during the years ended December 31, 2005 and 2004:

Year ended December 31,	**2005**	**2004**
Net Loss, as reported	**$ (6,873,000)**	**$ (5,159,000)**
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	**(774,000)**	**(898,000)**
Pro forma net loss	**$ (7,647,000)**	**$ (6,057,000)**
Net loss per share:		
Basic and diluted as reported	**$ (2.73)**	**$ (3.68)**
Basic and diluted pro forma	**$ (2.97)**	**$ (4.02)**

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For purposes of this pro forma disclosure the fair value of each option granted has been estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for the grants:

December 31,	**2005**	**2004**
Risk-free interest rate	**2.27%**	**1.04%**
Expected volatility	**65%**	**72%**
Expected life (years)	**9.1**	**9.1**
Expected dividend yield	**0%**	**0%**

The weighted-average fair value of options granted was $0.68 in 2005 and $1.16 in 2004. For purposes of pro forma disclosures, the estimated fair value of the options is amortized over the options vesting period.

Warranty Obligations

The Company warrants to the purchasers of its products that the product will be free of defects in material and workmanship for one year from the date of installation. In addition, some customers have purchased extended warranties for the Company s products that extend the base warranty for up to ten years. The Company records the estimated cost that may be incurred under its warranties at the time the product revenue is recognized based upon the relationship between historical and anticipated warranty costs and sales volumes. The Company periodically assesses the adequacy of its recorded warranty liability and adjusts the amounts as necessary. While the Company believes that its estimated liability for product warranties is adequate and that the judgment applied is appropriate, the estimated liability for product warranties could differ materially from actual future warranty costs. See Note 12 for additional information about the Company s warranty liability.

Insurance Reserves

In October 2005, the Company implemented a partially self-funded health insurance program for its employees. Under the program the Company is responsible for the first $35,000 of each individual claim, but its exposure is limited on a monthly and cumulative basis through insurance provided by a third party insurance company. The Company accrues on a monthly basis an amount sufficient to cover its maximum exposure under the program. It had accrued liabilities of $45,423 and $57,231 as of December 31, 2006 and 2005, respectively, to cover future claims under the program. At the end of each plan year it assesses the adequacy of the reserve based on its claims history and adjusts the reserve as necessary.

Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109*, which establishes that the financial statement effects of a tax position taken or expected to be taken in a tax return are to be recognized in the financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. FIN 48 is effective for fiscal years beginning after December 15, 2006. The adoption of FIN 48 is not expected to have a material impact on the Company s results of operations or its financial position.

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Note 5 Acquisitions

On May 3, 2005, pursuant to an Agreement and Plan of Merger (the Merger Agreement) dated as of April 28, 2005, by and among Lime Energy Co., MPG Acquisition Corporation, a wholly-owned subsidiary of Lime Energy (Merger Subsidiary), and Maximum Performance Group, Inc. (MPG), Lime Energy acquired MPG through the merger of MPG with and into Merger Subsidiary, with Merger Subsidiary continuing as the surviving corporation under the name Maximum Performance Group, Inc.

The merger consideration, after post closing adjustments, consisted of $1,632,972 in cash (net of transaction costs of $137,386 and cash acquired of $136,492), 166,148 shares of Lime Energy common stock and 166,148 additional shares which have been placed in escrow. Total consideration was $4,586,558, which consisted of $1,632,079 in cash, stock valued at $2,691,607 (based on the average closing price the Company s stock for the five days before and after the announcement of the transaction of $16.20 per share), $137,386 in transaction costs plus commissions paid to Delano Securities in the form of 8,366 shares of common stock valued at $15.00 per share (the closing price of the Company s stock on the effective date of the transaction). The cash portion of the consideration was funded with proceeds from a private placement of the Company s common stock. (See Note 23(j) for additional information on the private placement). If MPG s revenues during the two years following the merger exceed an aggregate of $5,500,000 on a cumulative basis, the escrow shares will be released to the former stockholders of MPG at the rate of 13.467 shares for every $1,000 of revenue in excess of such amount. These shares will be valued at the market price at the time they are released from escrow and will result in an increase in the goodwill associated with the transaction. As of December 31, 2006 no shares had been released from the escrow.

As a result of the merger, Merger Subsidiary (which changed its name to Maximum Performance Group, Inc. pursuant to the merger) became responsible for the liabilities of MPG, including approximately $232,000 in payments owed to shareholders and affiliates and approximately $40,000 of bank debt and capitalized lease obligations.

The assets acquired and liabilities assumed in the acquisition are as follows:

Accounts receivable	$ 292,102
Inventory	326,122
Advances to suppliers	472,689
Other current assets	63,611
Net property and equipment	121,608
Identifiable intangible assets	2,432,600
Goodwill	4,155,660
Total assets acquired	7,864,392
Accounts payable	928,509
Accrued expenses	658,940
Deferred revenue	1,011,616
Other current liabilities	525,676
Notes payable	289,587
Total liabilities acquired	3,414,328
Net assets acquired	4,450,064

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Less valuation of shares issued for acquisition	(2,691,607)
Acquisition costs paid through the issuance of common stock	(125,485)
Total cash paid, including acquisition costs, net of cash acquired	$ 1,632,972

Utilizing an independent third party valuation firm, the Company has assessed the fair values of assets and liabilities of MPG and allocated the purchase price accordingly. For purposes of the allocation, it has allocated $2,432,600 of the MPG purchase price to identifiable intangible assets with definitive lives such as customer relationships, customer contracts and the eMac technology and software. This amount has been capitalized and is being amortized over the estimated useful life of the related identifiable intangible assets. The amounts capitalized and the estimated useful life of the identifiable intangible assets are as follows:

Asset Class	Estimated Value	Estimated Useful Life
eMac technology and software	**$ 1,979,900**	**4.0**
Customer relationships	**267,800**	**9.7**
Customer contracts	**184,900**	**1.0**

On May 19, 2006, Lime Energy entered into an agreement by and among the Company, Parke Acquisition, LLC, a wholly-owned subsidiary of Lime Energy (Merger Subsidiary), Parke P.A.N.D.A. Corporation (Parke), Daniel W. Parke (a director of Lime Energy) and Daniel W. Parke and Michelle A. Parke as Trustees under The Parke Family Trust, under which on June 30, 2006, the Company acquired Parke pursuant to the merger of Parke with and into Merger Subsidiary, with Merger Subsidiary continuing as the surviving corporation under the name Parke Industries, LLC.

The merger consideration consisted of $2,720,000 in cash and shares of common stock having the value of $5 million (valuing each share at the $1.00 price used in the private placement of common stock described under Note 23(p)) or 5,000,000 shares of Lime Energy common stock, all of which was paid to The Parke Family Trust, the sole stockholder of Parke, which is beneficially owned by Daniel Parke and his spouse, Michelle A. Parke, who are also the trustees of such Trust. As a result of the merger, Merger Subsidiary became responsible for the liabilities of Parke, including $400,000 due on its line of credit and approximately $46,000 in various vehicle loans. The acquisition has been recorded using the purchase method of accounting.

Parke is an energy services provider specializing in the design, engineering and installation of energy efficient lighting upgrades for commercial and industrial users. Parke is headquartered in Glendora, California with sales offices in northern California, and at the time of the acquisition it had 30 employees.

Dan Parke, the president and founder of Parke continues to serve as the President of Parke and as of June 30, 2006 also assumed the position of President and Chief Operating Officer of Lime Energy. Mr. Parke also continues to serve as a director of Lime Energy.

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The assets acquired and liabilities assumed in the acquisition, based on a preliminary allocation are as follows:

Cash	$ 1,710
Accounts receivable	710,465
Inventory	142,789
Other current assets	7,088
Net property and equipment	79,917
Identifiable intangible assets	3,247,000
Goodwill	5,584,874
Line of credit	400,000
Accounts payable	338,536
Accrued expenses	89,571
Notes payable	45,763
Other current liabilities	368
Deferred tax liability	1,034,000

Utilizing an independent third party valuation firm, the Company has assessed the fair values of assets and liabilities of Parke and allocated the purchase price accordingly. For purposes of the allocation, it has allocated $595,000 of the Parke purchase price to identifiable intangible assets with definitive lives such as customer contracts, sales pipeline and the non-compete agreement with Dan Parke. This amount has been capitalized and will be amortized over the estimated useful life of the related identifiable intangible assets. It also allocated $2,652,000 to the Parke trade name, which was determined to have an indefinite useful life and therefore will not be amortized. Amortization of intangibles such as these are generally not deductible for tax purposes. The amounts capitalized and the estimated useful life of the identifiable intangible assets are as follows:

Asset Class	**Estimated Value**	**Estimated Useful Life**
Non-compete agreement	**$ 336,000**	**2 Years**
Customer contracts	**206,000**	**1 month**
Sales pipeline	**53,000**	**5 months**
Trade name	**2,652,000**	**Indefinite**

On September 26, 2006, the Company entered into an Agreement and Plan of Merger with Kapadia Acquisition, Inc. (Acquisition), a wholly-owned subsidiary of the Company, Kapadia Consulting, Inc. (Kapadia) and Pradeep Kapadia. The parties filed the Certificate of Merger on September 27, 2006, at which time the merger became effective, merging Kapadia with and into Acquisition, with Acquisition continuing as the surviving corporation under the name Kapadia Energy Services, Inc.

The merger consideration consisted of $1,250,000 in cash and 500,000 shares of Lime Energy common stock. For accounting purposes the common stock was valued at $0.96 per share, the average closing price of the stock for the 20 trading days immediately prior to the closing. The acquisition was recorded using the purchase method of accounting.

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Kapadia is an engineering firm that specializes in energy management consulting and energy efficient lighting upgrades for commercial and industrial users. Kapadia has seven employees, is headquartered in Peekskill, New York and has an office in Ventura, California.

The assets acquired and liabilities assumed in the acquisition are based on a preliminary allocation as follows:

Cash	$ 47,329
Accounts receivable	574,160
Inventory	111,962
Other current assets	122,451
Long term receivables	17,713
Property and equipment	16,430
Identifiable intangible assets	1,129,000
Goodwill	710,433
Accounts payable	657,079
Accrued expenses	299,316
Other current liabilities	11,271

Utilizing an independent third party valuation firm, the Company has assessed the fair values of assets and liabilities of Kapadia and allocated the purchase price accordingly. For purposes of the allocation, it has allocated $1,129,000 of the Kapadia purchase price to identifiable intangible assets with definitive lives such as sales backlog, sales pipeline, the non-compete agreement with Pradeep Kapadia and Kapadia s customer list. This amount has been capitalized and will be amortized over the estimated useful life of the related identifiable intangible assets. Amortization of intangibles such as these are generally not deductible for tax purposes. The amounts capitalized and the estimated useful life of the identifiable intangible assets are as follows:

Asset Class	**Estimated Value**	**Estimated Useful Life**
Sales backlog	$ **187,000**	**6 Months**
Sales pipeline	**708,000**	**12 Months**
Non-compete agreement	**87,000**	**2 Years**
Customer list	**147,000**	**10 Years**

The acquisitions of MPG, Parke and Kapadia were recorded using the purchase method of accounting. Accordingly, the results of operations have been included in the consolidated statement of operations since May 1, 2005 for MPG, since July 1, 2007 for Parke and since October 1, 2007 for Kapadia.

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Lime Energy Co.
Notes to Consolidated Financial Statements

Unaudited pro forma results of operations for the years ended December 31, 2006, 2005 and 2004 for the Company assuming the acquisition of MPG took place on January 1, 2004, and the acquisition of Parke took place on January 1, 2005 are as follows:

Year ended December 31,	**2006**	**2005**	**2004**
Revenue:			
As Reported	**$ 8,143,624**	**$ 3,693,429**	**$ 733,630**
Pro-forma	**10,027,454**	**7,298,786**	**3,045,945**
Net Loss from Continuing Operations:			
As Reported	**$ (16,426,089)**	**$ (6,620,776)**	**$ (4,989,025)**
Pro-forma	**(16,056,887)**	**(8,360,207)**	**(8,108,503)**
Basic and Diluted Loss per Share from Continuing Operations:			
As Reported	**$ (1.52)**	**$ (2.65)**	**$ (3.62)**
Pro-forma	**(1.26)**	**(2.72)**	**(4.33)**

The pro forma operating results as if the Company had completed the acquisition of Kapadia as of the beginning of 2006 are not significant to the Company s financial statements and are not presented.

Note 6 Discontinued Operations

The Company adopted Statement of Financial Accounting Standards No. 144 (SFAS 144) at the beginning of 2002. Among other things, SFAS 144 requires that the results of operations and related disposal costs as well as the gain or loss on the disposal of a business unit be presented on the statement of operations as a separate component of income before extraordinary items for all periods presented.

On April 3, 2006, the Company completed a Stock Purchase Agreement with Eugene Borucki and Denis Enberg (the Purchasers) in which it sold, effective as of March 31, 2006, all of the outstanding capital stock of Great Lakes Controlled Energy Corporation to the Purchasers for 14,194 shares of Lime Energy common stock. The shares of Lime Energy common stock received from the Purchasers were retired and became authorized but un-issued shares. For accounting purposes, the Company valued these shares at $13.65 each, which is the average closing market price of the common stock prior to entering into the letter of intent to sell Great Lakes. The Company did not incur a gain or loss on the sale of Great Lakes, however it did incur an impairment charge of $242,830 during the year ended December 31, 2005 when it reduced the carrying value of the goodwill associated with Great Lakes in anticipation of the sale.

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Notes to Consolidated Financial Statements

The assets and liabilities of the discontinued operations that are included in the Company s consolidated assets and liabilities are as follows:

Year ended December 31	2006	2005
Accounts receivable	$	$ 439,456
Other current assets		45,287
Total current assets		484,743
Net property plant and equipment		16,028
Total assets		$ 500,771
Accounts payable	$	$ 73,825
Accrued expenses		81,167
Current portion of long term debt		2,160
Deferred revenue		241,154
Customer deposits		50,000
Total current liabilities		448,306
Total liabilities	$	$ 448,306

The revenue and loss related to discontinued operations were as follows:

Year ended December 31	2006	2005	2004
Revenue	$ 485,787	$ 1,161,343	$ 1,679,005
Net Loss	(21,425)	(251,962)	(170,337)

Note 7 Inventories

Inventories consisted of the following:

December 31,	2006	2005
Raw materials	$ 1,010,995	$ 948,045
Work in process	3,700	
Finished goods	196,586	537,957
Reserve for obsolesce *(1)*	(596,790)	(28,232)
	$ 614,491	$ 1,457,789

(1) Includes $553,909 reserve for obsolete EnergySaver inventory.

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Lime Energy Co.
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Note 8 Property and Equipment

Property and equipment consist of the following:

December 31,	**2006**	**2005**
Land	**$ 205,000**	**$ 205,000**
Building	**997,381**	**984,396**
Furniture	**82,946**	**75,005**
Manufacturing equipment	**43,192**	**47,169**
Office equipment	**342,906**	**288,271**
Transportation equipment	**123,055**	**95,516**
VNPP assets		**1,376,005**
	1,794,480	**3,071,362**
Less accumulated depreciation	**593,472**	**557,166**
	$ 1,201,008	**$ 2,514,196**

Note 9 Goodwill and Other Intangible Assets

Goodwill represents the purchase price in excess of the fair value of assets acquired in business combinations. Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets , requires the Company to assess goodwill for impairment at least annually in the absence of an indicator of possible impairment and immediately upon an indicator of possible impairment. The following is a summary of the Company s goodwill as of December 31, 2006:

	Building Control and Automation	**Energy Technology**	**Energy Services**	**Total**
Balance at January 1, 2005	**$ 416,573**			**416,573**
Acquisition of Maximum Performance Group, Inc.		**4,155,660**		**4,155,660**
Impairment charge	**(242,831)**			**(242,831)**
Balance at December 31, 2005	**$ 173,742**	**$ 4,155,660**	**$**	**$ 4,329,402**
Sale of Great Lakes Controlled Energy Corporation		**(173,742)**		**(173,742)**
Acquisition of Parke P.A.N.D.A. Corporation			**5,584,874**	**5,584,874**

Acquisition of Kapadia Consulting, Inc.			**710,433**	**710,433**
Balance at December 31, 2006	**$**	**$ 4,155,660**	**$ 6,295,307**	**$ 10,450,967**

Lime Energy Co.
Notes to Consolidated Financial Statements

See Note 6 for additional information regarding the sale of Great Lakes Controlled Energy and Note 5 for additional information regarding the acquisitions of Maximum Performance Group, Inc, Parke P.A.N.D.A. Corporation and Kapadia Consulting, Inc. All goodwill related to the 2005 and 2006 acquisitions is non-deductible for income tax purposes.

The components of intangible assets as of December 31, 2006 and 2005 are as follows:

	Weighted Average Remaining Life (months)	Gross Book Value	Accumulated Amortization	Net Book Value
As of December 31, 2006				
Indefinite-lived assets		$ 2,652,000	$	$ 2,652,000
Amortized intangible assets:				
Technology and software	14.5	1,979,900	824,958	1,154,942
Customer relationships	64.6	414,800	47,538	367,262
Customer contracts	2.0	577,900	484,400	93,500
Non-complete agreements	9.8	423,000	94,875	328,125
Sales pipe-line	5.0	761,000	230,000	531,000
Total		$ 6,808,600	$ 1,681,771	$ 5,126,829
As of December 31, 2005				
Indefinite-lived assets		$		$
Amortized intangible assets:				
Technology and software	26.5	1,979,900	329,983	1,649,917
Customer relationships	53.7	267,800	18,515	249,285
Customer contracts	2.5	184,900	123,267	61,633
Non-complete agreements				
Sales pipe-line				
Total		$ 2,432,,600	$ 471,765	$ 1,960,835

The aggregate amortization expense was $1,210,006 and $471,765 for the years ended December 31, 2006 and 2005, respectively. The estimated amortization expense for intangible assets for each of the next five years as of December 31, 2006, is as follows:

	Amortization Expense
2007	$ 1,367,369
2008	650,613
2009	206,277
2010	41,295
2011	39,813

$ 2,305,768

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Note 10 Asset Impairment

In accordance with SFAS 144 Accounting for the Impairment or Disposal of Long-Lived Assets, the Company has reviewed the expected undiscounted future cash flows from the Company s northern Illinois VNPP (Virtual Negawatt Power Plan) asset (the ComEd VNPP) and determined that the asset is impaired. Assets utilized under the VNPP program are currently classified as property and equipment.

In September 2003 the Company entered into a contract with Commonwealth Edison Company (ComEd), a Chicago based utility, to provide up to 50 megawatts of curtailment capacity in northern Illinois through December 2015. Under the contract the Company is paid on a quarterly basis for providing the ability to reduce electricity demand as required by ComEd. To provide this curtailment capacity the Company has installed 124 of its EnergySaver lighting controllers in 76 commercial and industrial sites at a cost of $1,267,360. This cost has been capitalized and was being depreciated over the term of the contract as the capacity is made available. Through December 31, 2006 the Company had recorded total depreciation of $76,566.

As a result of the high capital requirements of this program, changes in lighting technology and changes in the Company s business plan the Company has decided to terminate further investment in the program and has begun negotiations with ComEd seeking to convert the program into an energy efficiency program. Under this proposed program the Company would receive credit for reducing energy consumed through the use of the installed equipment on a steady state basis, rather than on demand.

To determine if the ComEd VNPP asset was impaired, the Company analyzed the cash flows to be generated assuming it is successful in restructuring the contract with ComEd under the proposed terms. It then compared the present value of the projected cash flow stream, discounted at its cost of capital, to the carrying value of the ComEd VNPP asset. The Company completed an initial impairment test during the third quarter of 2006 at which time it determined that the asset was partially impaired. Based on this initial analysis it reduced the carrying value of the VNPP asset by $760,488 and recorded an impairment charge of an equal amount during the period. During the fourth quarter of 2006 it updated its analysis to incorporate changes in the proposed terms of the contract under renegotiation, along with revised operating cost assumptions and determined that the asset was completely impaired. As a result it reduced the carrying value of the asset to $0 and recorded an additional impairment charge of $423,037 during the fourth quarter of 2006. These charges have been included in the loss attributable to the Company s Energy Technology segment in Note 28 Business Segment Information.

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Note 11 Accrued Expenses

Accrued expenses are comprised of the following:

December 31,	**2006**	**2005**
Commissions	**$ 56,590**	**$ 124,736**
Compensation	**149,320**	**133,463**
Contract labor	**37,634**	**293,456**
Insurance	**47,866**	**73,432**
Interest	**31,059**	**71,216**
Inventory costs	**85,290**	
Lease expense	**13,502**	**55,191**
Legal	**47,408**	**14,456**
Professional fees	**34,830**	**26,328**
Real estate taxes	**41,689**	**73,135**
Registration penalties	**345,583**	
Royalties	**5,700**	**12,900**
Sales tax payable	**35,050**	**43,439**
Warranty reserve	**196,783**	**228,331**
Other	**123,473**	**78,682**
	$ 1,251,777	**$ 1,228,765**

Note 12 Warranty Liability

Changes in the Company s warranty liability are as follows:

December 31,	**2006**	**2005**
Balance, beginning of year	**$ 228,331**	**$ 151,008**
Warranties issued	**54,790**	**116,298**
Settlements	**(66,307)**	**(38,975)**
Adjustments *(1)*	**(20,031)**	
Balance, end of year	**$ 196,783**	**$ 228,331**

(1) Reflects the sale of Great Lakes Controlled Energy

Note 13 Line of Credit

On September 11, 2003 the Company closed on a credit facility with Laurus Master Fund, Ltd. (Laurus). The facility, which was subsequently amended on August 31, 2004, February 28, 2005 and November 28, 2005, included a $1,000,000 convertible term loan and a $2,000,000 convertible revolving line of credit.

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On June 29, 2006, Laurus exercised its right to convert all of the outstanding balance on the Company s revolving line of credit of $943,455 plus $7,410 in accrued interest into 950,865 shares of the Company s common stock, and the line was terminated. The revolving note contained antidilution provisions which automatically adjusted the conversion price of the note to $1.00 per share, the price at which the Company issued shares of common stock in the June 2006 PIPE Transaction (as described in Note 21). Laurus (if it still chose to convert the note) would have received 59,902 shares of common stock upon conversion of the revolving note utilizing the conversion price prior to this adjustment, but as a result of the adjustment it received 943,455 shares. The market value of the 883,553 additional shares it received as a result of the adjustment (capped at the amount converted including the accrued interest), was recorded as interest expense in the amount of $950,865. On June 29, 2006, the market price of the Company s common stock was $1.15 per share, as a result the Company recognized an additional $1,112 of non-cash interest expense calculated as the difference between the market price ($1.15) and the conversion price ($1.00) of the 7,410 shares of common stock issued in satisfaction of the accrued interest expense.

Note 14 Convertible Term Loans

On September 11, 2003, the Company entered into a $1,000,000 convertible Term Loan with Laurus Master Fund, Ltd., which was subsequently amended on August 31, 2004. The term loan was secured by all of the Company s assets except its real estate, was convertible into the Company s common stock under certain circumstances at Laurus or the Company s option, required monthly payments of principal and interest and was schedule to mature on September 1, 2006. Warrants valued at $163,400 were issued to Laurus in conjunction with the Term Loan. The value of these warrants were recorded as a discount to the Term Loan and were being amortizing over the term of the loan using the effective interest method.

In recording the transaction, the Company allocated the value of the proceeds to the Term Loan and warrants based on their relative fair values. In doing so, it determined that the Term Loan contained a beneficial conversion feature since the fair market value of the common stock issuable upon conversion of the Term Loan exceeded the value of $836,600 allocated to the Term Loan on the date of issuance. The Term Loan was initially convertible into 31,447 shares of common stock, which at the then current market price of $30.75 per share was worth $966,981. The difference between the market value of the shares issuable upon conversion and the value allocated to the Term Loan of $180,381 was considered to be the value of the beneficial conversion feature. The value of the beneficial conversion feature was also recorded as a discount to the term note and was being amortized over the term of the loan using the effective interest method.

Additional warrants were issued to Laurus in connection with the revolving line of credit discussed in Note 13, which was part of the same credit facility as the Term Loan. The value of these warrants of $320,000, in addition to $58,000 assigned to the value of warrants issued to an investment bank as part of its commission on the transaction and $158,228 in other fees and expenses related to the transaction were recorded as capitalized costs of financing and were being amortized using the effective interest method over the term of the Term Loan.

On November 26, 2003, Laurus converted $52,346 of principal and $654 of accrued interest into 1,667 shares of the Company s common stock, and during January 2004 it converted an additional $270,864 of principal and $4,736 of accrued interest into 8,667 of common stock.

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On November 22, 2005, the Company and Laurus entered into a securities purchase agreement providing for a new four year, $5 million convertible term loan (the November 2005 Term Loan). The Company received unrestricted access to the proceeds from the November 2005 Term Loan on November 25, 2005. This term loan was also secured by all of the Company s assets except its real estate, was convertible into the Company s common stock under certain circumstances at Laurus or the Company s option, required monthly payments of principal and interest and was scheduled to mature on November 1, 2009. None of the November 2005 Term Loan was ever converted to common stock.

As part of the November 2005 Term Loan the Company agreed to split any cash flow generated by the Company s VNPP and Shared Savings projects, after the payment of related debt, to the extent any portion of the November 2005 Term Loan was used to fund such Projects. In addition, the Company agreed to continue to pay a portion of the Project Cash Flow to Laurus on a declining basis for five years after repayment of the November 2005 Term Loan.

In connection with the November 2005 Term Loan, Laurus received warrants to purchase shares of the Company s common stock valued at $920,000. The value of these warrants were recorded as a discount to the loan and were being amortized over the life of the loan utilizing the effective interest method. In addition, fees and expenses related to the transaction totaling $271,431were recorded as capitalized financing costs and were being amortized over the life of the loan utilizing the effective interest method.

On June 29, 2006, the Company repaid the outstanding balances on the two term loans held by Laurus, along with accrued interest thereon and related prepayment penalties and fees. The total cash payment to Laurus made on June 29, 2006 was as follows:

	Payment
Principal	**$ 5,038,030**
Interest through the date of repayment	**40,568**
Prepayment penalties	**516,071**
Related fees	**6,749**
Total payment	**$ 5,601,418**

In conjunction with the repayment Laurus agreed to 1) waive the payment of liquidated damages due as a result of the Company s failure to register shares of its stock issuable upon conversion of the November 2005 Term Loan as required in the related Securities Purchase Agreement, and 2) terminate the requirement that the Company pay it a portion of the cash flows generated by VNPP and Shared Savings projects following the repayment of the November 2005 Term Loan, in exchange for receipt of 161,096 and 231,500 shares of the Company s common stock, respectively. The Company valued these shares at $1.15 per share (the market price on the date of issue) and charged $266,225 to interest expense and $185,261 to selling general & administrative expense during 2006.

Upon the repayment of the term loans the Company was required to recognize as interest expense the unamortized balance of the discount and capitalized financing costs related to these loans of $777,996 and 231,281, respectively.

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Note 15 Notes Payable

As part of the acquisition of Maximum Performance Group, Inc., the Company assumed a $150,000 demand note payable to Cinergy Ventures, LLC. The note accrues interest at the rate of prime (8.25% as of December 31, 2006) plus 3%. As of December 31, 2006 the Company had accrued interest payable of $27,096 related to the Note.

Note 16 Long Term Debt

The Company s long term debt consists of the following:

December 31,	**2006**	**2005**
Mortgage note to American Chartered Bank, prime (8.25% as of December 31, 2006) plus 1/2%, payable in monthly installments of $3,000, plus interest until January 2008. A final payment of $487,000 is due in February 2008. This note is collateralized by the building and land.	**$ 526,000**	**$ 562,000**
Convertible term note to Laurus Master Fund (less debt discount of $7,768, as of December 31, 2005). Repaid in full on June 29, 2006. (see Note 14)		**284,022**
Convertible term note to Laurus Master Fund (less debt discount of $890,641 as of December 31, 2005). Repaid in full on June 29, 2006. (see Note 14)		**4,109,359**
Various other notes	**41,091**	**24,651**
Total debt	**567,091**	**4,980,032**
Less current portion	**46,699**	**651,313**
Total long-term debt	**$ 520,392**	**$ 4,328,719**

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The aggregate amounts of long-term debt maturing in future years as of December 31, 2006, are as follows:

	Aggregate Maturities
2007	$ 46,699
2008	498,484
2009	5,806
2010	6,158
2011	6,531
2112	3,413
	$ 567,091

Note 17 Interest Expense

Interest expense is comprised of the following:

Year ended December 31	2006	2005	2004
Line of credit (Note 13)	$ 50,344	$ 138,097	$
Note payable (Note 15)	16,563	9,563	
Mortgage (Note 16)	46,495	39,181	30,200
Convertible term loans (Note 14)	249,065	87,709	43,917
Other	1,772	3,027	
Amortization of deferred issuance costs and debt discount (Note 14)	1,175,970	165,413	574,437
Value of warrant issued to Laurus (Note 23(i))		160,000	
Prepayment penalty (Note 14)	516,071		
Value of adjustment in conversion price (Note 14)	950,865		
Termination of post re-payment interest obligation (Note 14)	266,225		
Total Interest Expense	3,273,370	602,990	648,554

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Note 18 Lease Commitments

The Company leases a facility in Glendora, California from a Company controlled by Dan Parke, the Company s President and a director. Total rent expense for this facility amounted to $21,000 for 2006. The Company also leases offices in New York and California from unrelated third parties on which it paid a total of $147,505 during 2006, and prior to the sale of Great Lakes it leased a facility in Elk Grove Village, Illinois for Great Lakes from the two former owners of Great Lakes, both of whom were employed by the Company at the time. It paid $17,400 in rent for this facility during 2006.

Future minimum rentals to be paid by the Company as of December 31, 2006 are as follows:

Year ending December 31,	**Related Party**	**Unrelated Party**	**Total**
2007	**$ 43,260**	**$ 97,543**	**$ 140,803**
2008	**44,558**	**68,083**	**112,641**
2009	**45,895**	**69,785**	**115,680**
2010		**53,314**	**53,314**
Total	**$ 133,713**	**$ 288,725**	**$ 422,438**

Note 19 Income Taxes

The composition of income tax expense (benefit) is as follows:

Year ended December 31	**2006**	**2005**	**2004**
Deferred			
Federal	**$ (5,453,000)**	**$ (2,272,000)**	**$ (2,025,000)**
State	**(962,000)**	**(401,000)**	**(358,000)**
Change in valuation allowance	**6,415,000**	**2,673,000**	**2,383,000**
Benefit for income taxes	**$**	**$**	**$**

Significant components of the Company s deferred tax asset are as follows:

December 31	**2006**	**2005**
Deferred tax asset consisting principally of net operating losses	**$ 28,368,000**	**$ 22,454,000**
Deferred tax liabilities, principally related to non-deductible identifiable intangible assets	**(2,000,000)**	**(765,000)**
Less valuation allowance	**(27,402,000)**	**(21,689,000)**
Total net deferred tax liability	**$ (1,034,000)**	**$**

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The Company has recorded a valuation allowance equaling the deferred tax asset due to the uncertainty of its realization in the future. At December 31, 2006, the Company had U.S. federal net

operating loss carryforwards available to offset future taxable income of approximately $64 million, which expire in the years 2018 through 2026. Under Section 382 of the Internal Revenue Code (IRC) of 1986, as amended, the utilization of U.S. net operating loss carryforwards may be limited under the change in stock ownership rules of the IRC. As a result of ownership changes as defined by Section 382, which have occurred at various points in our history, we believe utilization of our net operating loss carryfowards will likely be significantly limited under certain circumstances.

The reconciliation of income tax expense (benefit) to the amount computed by applying the federal statutory rate is as follows:

Year ended December 31,	**2006**	**2005**	**2004**
Income tax (benefit) at federal statutory rate	**$ (5,592,000)**	**$ (2,337,000)**	**$ (1,754,000)**
State taxes (net of federal tax benefit)	**(823,000)**	**(336,000)**	**(258,000)**
Other nondeductible expenses			**34,000**
Other			**(404,000)**
Increase in valuation allowance	**6,415,000**	**2,673,000**	**2,382,000**
Income tax expense (benefit)	**$**	**$**	**$**

The Company has recorded a valuation allowance of $27.4 million due to the uncertainty of future utilization of the deferred tax assets. In assessing the adequacy of the valuation allowance, the Company determined that there existed a deferred tax liability related to an indefinite-lived intangible, for which the expected reversal was indeterminate. Due to uncertainty of whether this deferred tax liability would reverse prior to expiration of the net operating losses and other deferred tax assets, this liability has not been netted against the Company s deferred tax assets, resulting in a net deferred tax liability of approximately $1 million as of December 31, 2006.

Note 20 Commitments and Contingencies

a) Pursuant to the Consolidated Agreement dated January 8, 2001, among the Company, Giorgio Reverberi (Reverberi), the owner of the patent relating to certain technologies used in the EnergySaver, and Joseph Marino, former Chairman and CEO of Lime Energy (who assigned the rights to the Company), the Company agreed to pay Reverberi a royalty of $200 for each EnergySaver unit made by or for the Company and sold by the Company and Mr. Marino is also paid a royalty of $100 for each unit sold by the Company. The term of the license granted to the Company expires when the last of Reverberi s patents expires, which the Company expect to be in November, 2017. The license may be terminated by Reverberi if the Company materially breaches its terms and fails to cure the breach within 180 days after Reverberi gives the Company written notice of the breach. Approximately $37,200, $60,000 and $34,000 of expense was incurred under the agreement

for the years ended December 31, 2006, 2005 and 2004, respectively. The Company has accrued $5,700 and $12,900 in royalties payable at December 31, 2006 and 2005, respectively.

b) The Company entered into employment agreements with certain officers and employees expiring in 2009. Total future commitments under these agreements are as follows:

Year ending December 31,	
2007	**$ 1,290,000**
2008	**873,750**
2009	**23,750**
Total	**$ 2,187,500**

c) The Company is involved in certain litigation in the normal course of its business. Management intends to vigorously defend these cases. In the opinion of management, the litigation now pending will not have a material adverse affect on the consolidated financial statements of the Company.

Note 21 The June 2006 PIPE Transaction

On June 29, 2006, the Company entered into a securities purchase agreement with a group of 17 investors (the PIPE Investors) pursuant to which it issued to such purchasers an aggregate of 17,875,000 shares of its common stock at a price of $1.00 per share for total gross proceeds of $17,875,000 (the PIPE Transaction). Ten of the PIPE Investors, who purchased an aggregate of 13,900,000 shares of common stock in the PIPE Transaction, were holders of Series E Convertible Preferred stock, including three members of the Company s board of directors (who, together with members of their families, purchased 7,700,000 shares of common stock in the PIPE Transaction). Proceeds from the transaction were used to repay the Company s outstanding convertible debt and to fund the cash portion of the consideration of the Parke P.A.N.D.A. Corporation acquisition, with the balance to be used for working capital purposes and possible future acquisitions. $1,250,000 was used for the acquisition of Kapadia Consulting, Inc. (see Notes 5 and 23(w)).

A provision of the June 2006 PIPE Transaction required the Company to file and have declared effective by November 3, 2006, a registration statement registering the shares issued as part of the PIPE Transaction. To the extent that it failed to have the registration statement declared effective by this date, it was required to pay penalties to the PIPE investors at the rate of 1% per month of the purchase price paid by the investors. Largely as a result of the questions regarding the need to amend its Certificate of Incorporation to effect the reverse split of its stock (as discussed in Note 25), the Company was not able to have the registration statement declared effective until February 14, 2007. All of the investors in the PIPE Transaction agreed to accept shares of the Company s common stock as payment of this registration penalty. As of December 31, 2006 the Company had accrued $345,583 in penalties related to its failure to register these shares. The accrued penalties, along with $268,125 of penalties for the period from January 1, 2007 through February 14, 2007 (when the registration was declared effective), were satisfied through the issuance of 613,708 shares of common stock in January and February 2007.

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Note 22 The Series E Conversion

In connection with the June 2006 PIPE Transaction, the holders of the Series E Preferred agreed to convert all of their shares of Series E Preferred into common stock, and agreed that, upon the conversion, all agreements related to the Preferred Stock would be terminated. As a result of the conversion, all special approval rights related to the Preferred Stock, including the right to a liquidation preference, were terminated. All of the shares of Series E Convertible Preferred which were converted to common stock have been cancelled.

Prior to the June 2006 PIPE Transaction, the Series E Preferred stock was convertible into the Company s common stock at $15.00 per share. However, the Series E Preferred contained anti-dilution provisions which required automatic reduction of the conversion price of the Series E Preferred to the price of a new issuance if the Company issued stock or securities convertible into common stock at a price below the Series E Preferred conversion price then in effect. Because the Company issued common stock in the June 2006 PIPE Transaction at $1.00 per share, the Series E Preferred conversion price was automatically reduced to $1.00 per share. Prior to this adjustment the holders of the Series E Convertible Preferred stock would have been entitled to 1,574,027 shares of common stock on conversion, whereas as a result of this adjustment on conversion they actually received 21,648,346 shares of common stock. The market value of the additional 20,074,319 shares issuable upon conversion of the Series E was recorded as a non-cash deemed dividend in the amount of $23,085,467 on June 29, 2006.

Note 23 Equity Transactions

2004 Transactions

a) During fiscal 2004, holders of the Company s Series A Convertible Preferred Stock converted 145,000 shares of Series A into 96,667 shares of common stock. All shares of the Company s Series A Convertible Preferred Stock were originally issued in private placements to accredited investors pursuant to Regulation D which took place in 2001, or were subsequently issued as dividends on outstanding shares of Series A Preferred.

b) Also during 2004, holders of the Company s Series E Convertible Preferred Stock converted 5,067 shares of Series E Convertible Preferred Stock into 33,780 shares of common stock. All shares of the Series E Convertible Preferred Stock were originally issued in a private transactions described under c) below not involving a public offering, or were subsequently issued as dividends on outstanding shares of Series E Preferred.

c) On March 19, 2004, the Company entered into a securities purchase agreement with a group of four mutual funds managed by Security Benefit Group, Inc. whereby it issued to such purchasers, in exchange for $11,000,000 in gross proceeds, a package of securities that included 333,333 shares of the Company s common stock and 5 year warrants to purchase 116,667 additional shares of common stock at $36.30 per share. The Company used $7,000,006 of the proceeds to facilitate the Redemption and Exchange (described below). The balance of the funds were used to pay transaction costs and for general corporate purposes.

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On March 22, 2004, the Company entered into a Redemption and Exchange Agreement with the holders of its outstanding Series A Convertible Preferred Stock, Series C Convertible Preferred Stock and Series D Convertible Preferred Stock (collectively, the Old Preferred Stock) under which it redeemed 538,462 shares of the outstanding Old Preferred Stock which were convertible into 358,975 shares of common stock, at a redemption price equivalent to $19.50 per common share for a total cost of $7,000,006, and exchanged 210,451 shares of its newly authorized Series E Convertible Preferred Stock (the Series E Preferred) for the remaining 2,104,509 outstanding shares of the Old Preferred Stock (the Exchange) on a 1 for 10 basis (one share of Series E Preferred exchanged for 10 shares of Old Preferred Stock). All of the Old Preferred Stock has been cancelled. As part of the Exchange, all outstanding warrants to purchase shares of Series D Convertible Preferred Stock were exchanged for similar warrants to purchase shares of Series E Preferred and the expiration date was changed from June 30, 2004 to December 31, 2004. Such Series E warrants issued were exercisable for an aggregate of 3,750 shares of Series E Preferred at a price of $100 per share. They replaced warrants exercisable for 37,500 shares of Series D Preferred at an exercise price of $10 per share. Except as with respect to dividends, the Series E Preferred had substantially the same rights as the shares of Old Preferred Stock that it replaced, including:

- special approval rights with respect to certain actions by the Company;
- a conversion price of $15.00 per share;
- the right to elect up to four directors;
- the right to vote with the holders of common stock on an as converted basis on all matters on which holders of the Company s common stock are entitled to vote, except with respect to the election of directors or as otherwise provided by law;
- a right of first offer on the sale of equity in a private transaction; and
- anti-dilution protection that would adjust the conversion price in the event that the Company issued equity at a price which was less than the conversion price .

The Series E Preferred accrued dividends at a rate of 6% (versus 10% for the Old Preferred) per annum, which at the Company s option could be paid by issuing more shares of Series E Preferred.

Fees and expenses related to the transactions totaled $910,393.

d) During fiscal 2004, the Company received proceeds of $485,000 in connection with the exercise of 12,333 common stock warrants and 3,000 Series E Convertible Preferred warrants. The proceeds from the exercise of these warrants was used for general corporate purposes.

e) During fiscal 2004, the Company issued warrants to purchase 8,000 shares of its common stock at prices between $15.00 and $23.25 per share to consultants for services received. The warrants were valued at $72,500 using a modified Black-Sholes option pricing model utilizing the following assumptions: risk free rate of 1.607% to 2.772%, expected volatility of 42.5 to 53.6%, expected dividend of $0 and expected life of 2 to 3 years. The value of the warrants was charged to operations during the period.

f) During fiscal 2004, Laurus Master Fund Ltd. converted $270,864 of principal and $4,736 of accrued interest on the Company s outstanding $1,000,000 Convertible Term Note (issued in September, 2003) into 8,667 shares of the Company s common stock.

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g) During fiscal 2004, the Company satisfied the accrued dividend on its preferred stock of $1,636,780 though the issuance of 16,368 shares of its Series E Preferred stock.

2005 Transactions

h) During 2005, two holders of the Company s Series E Convertible Preferred Stock converted 2,167 shares of Series E Convertible Preferred Stock into 14,447 shares of common stock.

i) During 2005, the Company issued the following warrants:

On February 10, 2005, Delano Group Securities, LLC received a five year warrant to purchase 2,000 shares of common stock at $15.45 per share, pursuant to an agreement to provide investment banking services. Delano Group Securities, LLC, was a company owned by Mr. David Asplund, one of the Company s directors and effective January 23, 2006 the Company s CEO. The warrant was valued at $13,200 using a modified Black-Sholes option pricing model utilizing the following assumptions: risk free rate of 2.53%, expected volatility of 45.3%, expected dividend of $0 and expected life of 5 years. The value of the warrant was charged to operations during the period.

M&A Railroad and Electric Supply, LLC received a three year warrant to purchase 6,667 shares of common stock at $16.95 per share to as part of a legal settlement. This warrant was valued at $35,000 using a modified Black-Sholes option pricing model utilizing the following assumptions: risk free rate of 2.767%, expected volatility of 45.0%, expected dividend of $0 and expected life of 3 years. Of the total warrant value $33,000 was charged to operations during the forth quarter of 2004 and $2,000 was charged to operations during the first quarter of 2005.

On April 28, 2005, Laurus Master Fund, Ltd. received a warrant to purchase 26,667 shares of common stock in exchange for its consent to the Company entering into the PIPE Transaction described under k) below and acquiring MPG, as well as waiving its right to adjust the conversion price on the Company s convertible term note and convertible revolving note. The warrant has an exercise price of $15.00 per share and a term of five years. The warrant was valued at $160,000 using a modified Black-Sholes option pricing model utilizing the following assumptions: risk free rate of 2.941%, expected volatility of 43.7%, expected dividend of $0 and expected life of 5 years. The value of the warrant was charged to interest expense during 2005.

Various consultants received warrants to purchase 27,333 shares of the Company s common stock with exercise prices between $15.00 and $15.45 per share and terms of three to ten years. The warrants were valued collectively at $144,600 using a modified Black-Sholes option pricing model utilizing the following assumptions (depending on the warrant being valued): risk free rate of 2.366% to 3.029%, expected volatility of 40.7% to 46.5%, an expected dividend of $0 and an expected life of 3 to 10 years. The values of the warrants were charged to operations during the 2005.

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j) On April 28, 2005 the Company issued to five (5) institutional investors, for an aggregate gross purchase price of $5,625,000, 416,667 shares of its common stock and 42 month warrants to purchase 208,333 additional shares of common stock at $15.75 per share. Net proceeds from the transaction were approximately $5,413,000, of which approximately $1,644,000 was used to fund the acquisition of Maximum Performance Group, Inc. The balance of the proceeds were used to pay transaction costs and for general corporate purposes.

Delano Group Securities LLC and Mr. David Valentine acted as advisors on the transaction. The Company paid Delano Group Securities LLC $16,250 and 3,333 shares of common stock and Mr. Valentine 3,333 shares of common stock for their services. Mr. Asplund and Mr. Valentine both were serving as directors of Lime Energy at that time. Subsequently, on January 23, 2006, Mr. Asplund became its CEO.

k) On May 3, 2005 the Company issued 166,148 shares of common stock in connection with the acquisition of Maximum Performance Group, Inc. In addition, 166,148 shares of common stock are being held in escrow and will be issued in the event MPG meets specific performance criteria during the two year period following the acquisition. No escrow shares have been released as of December 31, 2006.

Delano Group Securities LLC acted as an advisor on the acquisition of MPG and was paid $82,176 and 8,366 shares of common stock for its services. These shares were valued at $15.00 per share, which was the closing market price of the Company s common stock on April 28, 2005. In addition, the Company may issue up to 8,366 additional shares of common stock to Delano if any of the MPG shares held in escrow are released. Delano Group Securities LLC is owned by Mr. David Asplund, one of Lime Energy s directors and effective January 23, 2006, its CEO.

l) On November 22, 2005 the Company entered into a securities purchase agreement with Laurus Master Fund, Ltd. whereby the Company issued to Laurus a $5 million secured convertible term note and warrants to purchase 133,333 shares of its common stock at $17.40 per share anytime prior to November 22, 2012. The warrants were valued at $920,000 using a modified Black-Sholes option pricing model utilizing the following assumptions: risk free rate of 4.034%, expected volatility of 67.4%, expected dividend of $0 and expected life of 7 years. The value of the warrants was recorded as a discount to the term loan and was to be amortized over the term of the underlying debt utilizing the effective interest method.

This term loan was retired through a cash payment on June 29, 2006. No portion of the term loan was converted to common stock while the note was outstanding.

m) During the year ended December 31, 2005, the Company s Board of Directors declared dividends payable on its Series E Convertible Preferred Stock of $1,366,900. The dividends were paid with 13,699 additional shares of Series E Convertible Preferred Stock.

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2006 Transactions

n) During the first three months of 2006, two holders of the Company s Series E Convertible Preferred Stock converted a total of 7,130 shares of Series E Convertible Preferred Stock into 47,533 shares of common stock.

o) Effective March 31, 2006, the Company received 14,194 shares of its common stock as part of the sale of its Great Lakes Controlled Energy Corporation subsidiary to Messrs. Eugene Borucki and Denis Enberg. These shares have been returned to the status of authorized, unissued shares of common stock.

p) On June 29, 2006 the Company entered into a Securities Purchase Agreement and issued to 17 investors, including 10 existing holders of its Series E Convertible Stock, for an aggregate purchase price of $17,875,000, 17,875,000 shares of its common stock (the PIPE Transaction). The Company used $2.72 million of the proceeds to fund the cash consideration for the acquisition of Parke P.A.N.D.A. Corporation, approximately $5.6 million to prepay two convertible secured term loans and related prepayment penalties and accrued interest owed to Laurus Master Fund Ltd., $400,000 to pay off Parke s line of credit, and $115,107 for transaction related costs. The balance of the gross proceeds of approximately $9 million has been and will be used for working capital and other general corporate purposes, except that $1,250,000 was used to pay the cash portion of the acquisition price for Kapadia Consulting, Inc. on September 27, 2006, as described under w) below.

q) Concurrently with the closing of the PIPE Transaction pursuant to the Securities Purchase Agreement described in p) above, the holders of all of the Company s outstanding Series E Preferred Stock converted such shares into 21,648,346 shares of its common stock. Please refer to Note 22 for additional information regarding this conversion.

r) A number of the Company s common stock warrants contain antidilution provisions that automatically adjust the exercise price on the warrants to the issuance price of any security convertible into the Company s common stock if the price of the newly issued security is less than the exercise price on the holder s warrant. Prior to the PIPE Transaction, the exercise price on these warrants ranged from $13.50 per share to $15.00 per share. The issuance of common stock in the PIPE Transaction caused the exercise price on these warrants to automatically be reduced to $1.00 per share. Utilizing a modified Black-Scholes option pricing model, the Company determined that the increase in value of these warrants that resulted from this adjustment was $297,868, which the Company recorded as a non-cash deemed dividend on June 29, 2006.

s) Immediately following completion of the PIPE Transaction and prepayment of the Laurus term loans, Laurus elected to convert the entire outstanding balance on its revolving line of credit, along with accrued interest thereon, into 950,865 shares of the Company s common stock. In addition, in consideration of the issuance issuance of 392,596 shares of common stock, Laurus agreed to (i) waive the payment of liquidated damages due as a result of the Company s failure to register shares of common stock into which the November 2005 $5 million term loan was convertible, and (ii) terminate the requirement that the Company pay it a portion of the cash flows generated by VNPP projects for a period of 5 years following the repayment of the November 2005 $5 million convertible term loan.

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