

LIME ENERGY CO.
Form S-1
October 30, 2006

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As filed with the Securities and Exchange Commission on October 30, 2006
Registration No. 333-[]

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Amendment No. 1 on
FORM S-1
To Registration on Form S-3
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933
LIME ENERGY CO.
(Exact Name of Registrant as Specified in its Charter)

Delaware (State or other jurisdiction of incorporation or organization)	3699 (Primary Standard Industrial Classification Code Number)	36-4197337 (I.R.S. Employer Identification No.)
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1280 Landmeier Road, Elk Grove Village, Illinois, 60007, (847) 437-1666
(Address, and Telephone Number of 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, and Telephone Number of Agent for Service)

Copies to:
Andrew H. Connor
Schwartz Cooper Chartered
180 N. LaSalle Street, Suite 2700
Chicago, Illinois 60601
(312) 346-1300

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.

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.

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.

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.

CALCULATION OF REGISTRATION FEE

Title of Each Class of	Amount To	Proposed Maximum	Proposed Maximum Aggregate	Amount of Registration
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Securities to be Registered	Be Registered (1)	Offering Price Per Share	Offering Price	Fee (4) \$0 (3)
Rights to Purchase Common Stock, par value \$.0001 per share (2)	38,585,915	N/A	N/A	
Common Stock, par value \$0.0001	38,585,915	\$ 1.00	\$38,585,915	\$4,128.69

(1) In the event of a stock split, stock dividend or similar transaction involving the common stock of the registrant, in order to prevent dilution, the number of shares of common stock registered hereby shall be automatically adjusted to cover the additional shares of common stock in accordance with Rule 416 under the Securities Act of 1933, as amended.

(2) Evidencing the rights to subscribe for 38,585,915 shares of common stock, par value \$0.0001 per share.

(3) The rights are being issued without consideration.

- (4) Partially offset
by \$3,153.72
previously paid
with the
Registration
Statement on
Form S-3 filed
on
September 11,
2006, which is
amended
hereby.

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 said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to completion, dated October 30, 2006

PROSPECTUS

LIME ENERGY CO.

Up To 38,585,915 Shares of Common Stock

We are distributing at no charge to the holders of our common stock, other than a group (the Excluded Group) consisting of Daniel W. Parke and the 11 former holders of our Series E Convertible Preferred Stock (the Former Series E Holders) who converted all outstanding shares of Series E Convertible Preferred Stock (Series E) into shares of common stock on June 29, 2006, non-transferable subscription rights to purchase up to an aggregate of 38,585,915 shares of our common stock at a cash subscription price of \$1.00 per share, or an aggregate of \$38,585,915. The members of the Excluded Group have all waived their rights to participate in this rights offering in order to maximize the number of shares available for purchase by our other stockholders.

Each stockholder of Lime Energy Co. (formerly named Electric City Corp.), other than the Excluded Group, will receive five subscription rights for each share of our common stock owned on ___, 2006. Each subscription right will entitle you to purchase one share of our common stock.

The subscription rights will expire if they are not exercised prior to 5:00 p.m., New York City time, on ___, 2006, the expiration date of this rights offering. We, in our sole discretion, may extend the period for exercising the subscription rights. We will extend the duration of the rights offering as required by applicable law, and may choose to extend it if we decide that changes in the market price of our common stock warrant an extension or if we decide to give investors more time to exercise their subscription rights in this rights offering. Subscription rights that are not exercised by the expiration date of this rights offering will expire and will have no value. You should carefully consider whether or not to exercise your subscription rights before the expiration date.

The rights may not be sold or transferred except by operation of law.

Our common stock is traded in the over-the-counter market and is quoted on the OTC Bulletin Board under the symbol LMEC. On October 30, 2006, the closing bid price of our common stock as reported on the OTC Bulletin Board was \$1.02 per share.

	Per Share	Aggregate
Subscription Price	\$ 1.00	\$ 38,585,915
Estimated Expenses	0.00	100,000
Net Proceeds to Lime Energy	\$ 1.00	\$ 38,485,915

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>.

Investing in our common stock involves significant risks described beginning on page 13.

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 October 30, 2006.

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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. 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 refer to 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 similar. 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 2006 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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THE RIGHTS OFFERING

Rights	We will distribute to each stockholder of record on ____, 2006, other than the Excluded Group, at no charge, five non-transferable subscription rights for each share of our common stock then owned. The rights will be evidenced by non-transferable rights certificates. If and to the extent that our stockholders receiving such rights exercise their right to purchase our common stock we will issue up to 38,585,915 shares and receive gross proceeds of up to \$38,585,915 in the rights offering.
Basic Subscription Privilege	Each right will entitle the holder to purchase one share of our common stock for \$1.00, the per share subscription price.
Over-Subscription Privilege	Each rights holder who elects to exercise its basic subscription privilege in full may also subscribe for additional shares that are not otherwise subscribed for by other rights holders, at the same subscription price per share. If an insufficient number of shares are available to fully satisfy the over-subscription privilege requests, any available shares will be distributed proportionately among rights holders who exercised their over-subscription privilege based on the number of shares each rights holder subscribed for under the basic subscription privilege. The subscription agent will return any excess payments by mail without interest or deduction promptly after the expiration of the rights offering.
Subscription Price	\$1.00 per share
Record Date	____, 2006
Expiration Date	____, 2006, subject to extension
Non-Transferability of Rights	The rights are not transferable, except by operation of law.
Procedure for Exercising Rights	You may exercise your rights by properly completing and signing your rights certificate. You must deliver your rights certificate with full payment of the subscription price (including any amounts in respect of the over-subscription privilege) to the subscription agent on or prior to the expiration date. If you use the mail, we recommend that you use insured, registered mail, return receipt requested. If you cannot deliver your rights certificate to the subscription agent on time, you may follow the guaranteed delivery procedures described under The Rights Offering Guaranteed Delivery Procedures beginning on page 28. If you hold shares of our common stock through a broker, custodian bank or other nominee, see How Rights Holders Can Exercise Rights Through Others below.
No Revocation	Once you have exercised your subscription privilege your exercise may not be revoked. Rights not exercised prior to the expiration of the rights offering will expire.

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How Rights Holders Can Exercise Rights Through Others

If you hold our common stock through a broker, custodian bank or other nominee, we will ask your broker, custodian bank or other nominee to notify you of the rights offering. If you wish to exercise your rights, you will need to have your broker, custodian bank or other nominee act for you. To indicate your decision, you should complete and return to your broker, custodian bank or other nominee the form entitled Beneficial Owner Election Form. You should receive this form from your broker, custodian bank or other nominee with the other rights offering materials. You should contact your broker, custodian bank or other nominee if you believe you are entitled to participate in the rights offering but you have not received this form.

How Foreign Stockholders and Stockholders with APO or FPO Addresses Can Exercise Rights

The subscription agent will mail rights certificates to you if you are a stockholder whose address is outside the United States or if you have an Army Post Office or a Fleet Post Office address. To exercise your rights, you must notify the subscription agent prior to 11:00 a.m., New York City time, on ____, 2006, and take all other steps which are necessary to exercise your rights, on or prior to the date on which the rights offering expires. If you do not follow these procedures prior to the expiration of the rights offering, your rights will expire.

Material United States Federal Income Tax Consequences

A holder should not recognize income or loss for United States Federal income tax purposes in connection with the receipt or exercise of subscription rights in the rights offering. For a detailed discussion, see Material United States Federal Income Tax Consequences.

Issuance of Our Common Stock

We will issue certificates representing shares purchased in the rights offering as soon as practicable after the expiration of the rights offering.

No Recommendation to Rights Holders

We are not making any recommendations as to whether or not you should subscribe for shares of our common stock. You should decide whether to subscribe for shares based upon your own assessment of your best interests.

Use of Proceeds

The proceeds from the sale of common stock will be used for general corporate purposes. We may also use a portion of the net proceeds to acquire or invest in businesses, products and technologies that we believe are complementary to our own. Pending these uses, the net proceeds will be invested in investment-grade, interest-bearing securities.

Subscription Agent

LaSalle Bank National Association

For additional information concerning the rights offering, see The Rights Offering, beginning on page 23. An investment in our common stock involves significant risks. See Risk Factors beginning on page 13.

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QUESTIONS AND ANSWERS ABOUT THE RIGHTS OFFERING

Q: What is the rights offering?

A: The rights offering is a distribution to holders of our common stock, other than the Excluded Group, of five non-transferable subscription rights for each share of common stock owned as of ___, 2006, with each right evidencing the right to purchase one share of our common stock at a price of \$1.00, for a total of 38,585,915 subscription rights.

Q: What is a subscription right?

A: Each subscription right is a basic right to purchase one share of our common stock at a price of \$1.00 and carries with it an over-subscription privilege, as described below.

Q: How many shares may I purchase if I exercise my subscription rights?

A: You will receive five non-transferable subscription rights for each share of our common stock that you owned on ___, 2006, the record date. Each subscription right contains the basic subscription privilege and the over-subscription privilege.

Q: What is the basic subscription privilege?

A: The basic subscription privilege of each subscription right entitles you to purchase one share of our common stock at the subscription price of \$1.00 per share.

Q: What is the over-subscription privilege?

A: The over-subscription privilege of each subscription right entitles each holder who fully exercises his basic subscription privilege with respect to all of his rights, to subscribe for additional shares of our common stock at the same subscription price per share if any rights offering shares are not purchased by other holders of subscription rights under their basic subscription privileges as of the expiration date.

Q: What if there are an insufficient number of shares to satisfy the over-subscription requests?

A: If there are an insufficient number of shares of our common stock available to fully satisfy the over-subscription requests of rights holders, subscription rights holders who exercised their over-subscription privilege will receive the available shares pro rata based on the number of shares each subscription rights holder subscribed for under the basic subscription privilege. Any excess subscription payments will be returned, without interest or deduction, promptly after the expiration of the rights offering.

Q: Why are we engaging in a rights offering?

A: The rights offering is being made to raise equity capital in a cost-effective manner and to offer our common stockholders an opportunity to reduce the dilution they sustained as a result of three transactions which closed at the end of June, 2006 by purchasing of shares of our common stock at the same price per share (\$1.00) at which shares were issued in those transactions. The three transactions were: (a) the private placement transaction (the PIPE Transaction) in which we issued 18,750,000 shares to certain investors (the PIPE Investors) at a purchase price of \$1.00 per share; (b) the conversion (the Series E Conversion Transaction) of all outstanding shares of our Series E Convertible Preferred Stock into shares of common stock at a conversion price of \$1.00 per share;

and (c) the acquisition of Parke P.A.N.D.A. Corporation for cash and 5,000,000 shares of common stock,

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which were value in this transaction at \$1.00 per share. We believe this is a cost-effective way to raise capital because we will not pay any underwriters or brokers commissions or discounts with respect to any shares that are sold.

Q: Am I required to subscribe in the rights offering?

A: No.

Q: What happens if I choose not to exercise my subscription rights?

A: You will retain your current number of shares of common stock even if you do not exercise your subscription rights. However, if you do not exercise your basic subscription privileges, the percentage of our common stock that you own will decrease and your voting and other rights will be diluted if and to the extent that other stockholders exercise their basic and over-subscription rights.

Q: Do you need to have a certain participation level in order to complete the rights offering?

A: No. We may choose to consummate the rights offering regardless of the number of shares actually purchased.

Q: Can the board of directors cancel the rights offering?

A: Yes. Our board of directors may decide to cancel the rights offering at any time prior to the expiration of the rights offering for any reason. If we cancel the rights offering, any money received from subscribing stockholders will be refunded promptly, without interest or deduction. See The Rights Offering Cancellation Right.

Q: May I transfer my rights if I do not want to purchase any shares?

A: No. You may not sell, give away or otherwise transfer your rights. However, rights will be transferable by operation of law, for example, upon death of the recipient.

Q: When will the rights offering expire?

A: The subscription rights will expire, if not exercised prior thereto, at 5:00 p.m., New York City time, on ____, 2006, unless we decide to extend the rights offering until some later time. See The Rights Offering Expiration of the Rights Offering and Extensions and Termination. The subscription agent must actually receive all required documents and payments before that time and date. There is no maximum duration for the rights offering.

Q: How do I exercise my subscription rights?

A: You may exercise your subscription rights by properly completing and signing your subscription rights certificate. Your subscription rights certificate, together with full payment of the subscription price, must be received by the subscription agent on or prior to the expiration date of the rights offering. If you use the mail, we recommend that you use insured, registered mail, return receipt requested. If you cannot deliver your subscription rights certificate to the subscription agent on time, you may follow the guaranteed delivery procedures described under The Rights Offering Guaranteed Delivery Procedures.

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Q: What should I do if I want to participate in the rights offering but my shares are held in the name of my broker, custodian bank or other nominee?

A: If you hold shares of our common stock through a broker, custodian bank or other nominee, we will ask your broker, custodian bank or other nominee to notify you of the rights offering. If you wish to exercise your rights, you will need to have your broker, custodian bank or other nominee act for you. To indicate your decision, you should complete and return to your broker, custodian bank or other nominee the form entitled Beneficial Owner Election Form. You should receive this form from your broker, custodian bank or other nominee with the other rights offering materials. You should contact your broker, custodian bank or other nominee if you believe you are entitled to participate in the rights offering but you have not received this form.

Q: What should I do if I want to participate in the rights offering, but I am a stockholder with a foreign address or a stockholder with an APO or FPO address?

A: The subscription agent will not mail subscription rights certificates to you if you are a stockholder of record as of the rights offering record date with an address outside the United States or with an Army Post Office or a Fleet Post Office address. To exercise your subscription rights, you must notify the subscription agent prior to 11:00 a.m., New York City time, on ____, 2006 and establish to the satisfaction of the subscription agent that you are permitted to exercise your subscription rights under applicable law. In addition, you must take all other steps that are necessary to exercise your subscription rights, on or prior to the date required for participation in the rights offering. If you do not follow these procedures prior to the expiration of the rights offering, your rights will expire.

Q: Will I be charged a sales commission or a fee if I exercise my subscription rights?

A: We will not charge a brokerage commission or a fee to rights holders for exercising their subscription rights. However, if you exercise your subscription rights through a broker or nominee, you will be responsible for any fees charged by your broker or nominee.

Q: Are there any conditions to my right to exercise my subscription rights?

A: Yes. The rights offering is subject to certain limited conditions. Please see The Rights Offering Conditions to the Rights Offering.

Q: What is the board of directors recommendation regarding the rights offering?

A: Neither we, nor our board of directors is making any recommendation as to whether or not you should exercise your subscription rights. You are urged to make your decision based on your own assessment of the rights offering and after considering all of the information herein, including the Risk Factors section of this document. You should not view the recent purchase of shares by three of our directors in the PIPE Transaction as a recommendation or other indication that the exercise of your subscription rights is in your best interests.

Q: How was the \$1.00 per share subscription price established?

A: The subscription price per share is equal to the price at which we recently sold shares of our common stock to the PIPE Investors in the PIPE Transaction, and the price at which the Series E Conversion was effected, and the price at which the common stock was valued for purposes of the Parke P.A.N.D.A. Corporation acquisition. This per share price was established through arm's length negotiations with the PIPE Investors, including certain

members of our board of directors, in the PIPE Transaction and with Dan Parke (another member of our board) in connection with the acquisition of Parke P.A.N.D.A. Corporation from The Parke Family Trust. Because the PIPE Transaction and the Parke acquisition involved potential conflicts of interest on the part of certain of our directors, these

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transactions and the terms of this rights offering were reviewed by a special committee comprised of disinterested, independent directors. Rittenhouse Capital, LLC (Rittenhouse) acted as a financial advisor to the committee and provided a fairness opinion relating to the consideration paid by the Company in connection with the acquisition of Parke P.A.N.D.A. Corporation, and also advised the committee on market conditions and financing options, including the PIPE Transaction and this rights offering. After reviewing the proposed transactions and considering the information provided by Rittenhouse, the committee approved the Parke acquisition, the PIPE Transaction and recommended to the Board that the Company proceed with the rights offering at a price of \$1.00 per share.

Q: May stockholders in all states participate?

A: Although we intend to distribute the rights to all stockholders (except the Excluded Group), we reserve the right in some states to require stockholders, if they wish to participate, to state and agree that upon exercise of their respective rights that they are acquiring the shares for investment purposes only, and that they have no present intention to resell or transfer any shares acquired.

Q: Is exercising my subscription rights risky?

A: The exercise of your subscription rights involves significant risks. Exercising your rights means buying additional shares of our common stock and should be considered as carefully as you would consider any other equity investment. Among other things, you should carefully consider the significant risks described under the heading Risk Factors, beginning on page 13.

Q: How many shares will be outstanding after the rights offering?

A: The number of shares of common stock currently outstanding is 49,786,611. We may issue as many as 38,585,915 additional shares through the rights offering, which represents five shares for every share owned by our common stockholders, excluding those shares owned by the members of the Excluded Group. The actual number of shares issued pursuant to the rights is expected to be less, perhaps significantly less than this, and will depend on the level of participation by rights holders.

Q: How will the rights offering affect the ownership of the common stock by the the Former Holders of Series E Preferred and Daniel Parke?

A: The former holders of our Series E stock (the Former Series E Holders) collectively own approximately 80% of our outstanding common stock. (There are 11 Former Series E Holders. If Daniel Parke, one of our directors, is also included (he is not a Former Series E Holder), the group of 12 stockholders collectively owns approximately 85% of our outstanding common stock. In the unlikely event that the rights holders exercise their rights to purchase all 38,585,915 shares of common stock being offered in this rights offering, the ownership of the Former Series E Holders and Mr. Parke as a group would be reduced to approximately 48%. If rights to purchase 10,000,000 shares are exercised, the ownership of the Former Series E Holders and Mr. Parke as a group would be reduced to approximately 70%.

Q: After I exercise my rights, can I change my mind and cancel my purchase?

A: No. Once you send in your subscription rights certificate and payment you cannot revoke the exercise of your subscription rights, even if you later learn information about us that you consider to be unfavorable and even if the market price of our common stock is below the \$1.00 per share subscription price. You should not exercise

your subscription rights unless you are certain that you wish to purchase additional shares of our common stock at a price of \$1.00 per share. Subscription rights not exercised prior to the expiration of the rights offering will expire and have no value. See The Rights Offering No Revocation.

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Q: What are the United States Federal income tax consequences of exercising my subscription rights?

A: A holder should not recognize income or loss for United States Federal income tax purposes in connection with the receipt or exercise of subscription rights in the rights offering. You should consult your tax advisor as to the particular consequences to you of the rights offering. See Material United States Federal Income Tax Consequences.

Q: If the rights offering is not completed, will my subscription payment be refunded to me?

A: Yes. The subscription agent will hold all funds it receives in escrow until completion of the rights offering. If the rights offering is not completed, the subscription agent will return promptly, without interest, all subscription payments.

Q: If I exercise my subscription rights, when will I receive shares of common stock purchased in the rights offering?

A: We will deliver certificates representing the shares of our common stock purchased in the rights offering as soon as practicable after the expiration date of the rights offering and after all pro rata allocations and adjustments have been completed. We will not be able to calculate the number of shares to be issued to each exercising holder until 5:00 p.m., New York City time, on the third business day after the expiration date of the rights offering, which is the latest time by which subscription rights certificates may be delivered to the subscription agent under the guaranteed delivery procedures described under The Rights Offering Guaranteed Delivery Procedures.

Q: Who is the subscription agent for the rights offering?

A: The subscription agent is LaSalle Bank N.A.. The address for delivery to the subscription agent is as follows:
By Mail, Overnight Courier or by Hand:

LaSalle Bank N.A.
135 S. LaSalle Street
Suite 1811
Chicago, IL 60603

Your delivery to an address or other than by the methods set forth above will not constitute valid delivery.
For a more complete description of the rights offering, see The Rights Offering beginning on page 23.

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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 premier energy saving products are the EnergySaver system and the eMAC line of HVAC controllers. 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 30, 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, increases 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.

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

On June 15, 2006, we effected a 1 for 15 reverse split of our common stock. As a result of the reverse split the number of outstanding shares of our common stock was reduced from 53,789,349 to 3,585,957 shares and the number of common shares into which our Series E Convertible Preferred Stock (the Series E) was then convertible was reduced from 23,261,300 shares to 1,550,753 shares. We effected this reverse split to allow us to complete the PIPE Transaction and the acquisition of Parke (both described below) without having to increase the number of authorized shares of our common stock. On the effective date of the reverse stock split our ticker symbol changed to ELCY.

The PIPE Transaction; Conversion of Series E Convertible Preferred; Use Of Proceeds

On June 29, 2006, we entered into a securities purchase agreement with the PIPE Investors pursuant to which the PIPE Transaction was closed and 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. Ten of the PIPE Investors, who purchased an aggregate of 13,900,000 shares of common stock in the PIPE Transaction, were also holders of Series E shares, 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, there were 11 holders of outstanding shares of Series E (including 10 of the PIPE Investors), and the Series E stock was convertible into our common stock at \$6.67 per share, after adjustment for the reverse split. However, the Series E contained anti-dilution provisions which required automatic reduction of the conversion price of the Series E if we issued stock or securities convertible into common stock at a price below the Series E conversion price then in effect to the price of

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the new issuance. Because we issued common stock in the PIPE Transaction at \$1.00 per share, the Series E conversion price was automatically reduced to \$1.00 per share.

In connection with the PIPE Transaction, all of the holders of the Series E agreed to convert all outstanding shares of Series E into common stock at the new conversion price on the closing of the PIPE Transaction. As a result, we issued 21,648,346 shares of our common stock upon the conversion of all of the outstanding shares of Series E 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 a portion of the cash flows generated by our 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 are being 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. On September 26, 2006, we closed the acquisition of Kapadia Consulting, Inc. (described below) and used \$1,250,000 of the proceeds of the PIPE Transaction to pay a portion of the acquisition price.

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

On June 30, 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). 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 Co.

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) The Parke Family Trust's ownership of Parke, 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

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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.

Name Change to Lime Energy Co.

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 that 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. In connection with the name change, our ticker symbol changed to LMEC effective on September 22, 2006.

Acquisition of Kapadia Consulting, Inc.

On September 26, 2006, we acquired Kapadia Consulting, Inc., effective September 30, 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.

Stockholder Ratification of Reverse Split

On October 4, 2006, our directors approved an amendment to our certificate of incorporation with respect to the reverse stock split which became effective on June 15, 2006, and approved submitting the amendment and the reverse split to our stockholders for ratification by written consent. The reverse stock split was ratified and the amendment with respect thereto was approved by stockholders holding a majority of our common stock by written consent on October 5, 2006. Under Rule 14c issued by the Commission, such stockholder action by written consent may not become effective earlier than 20 days after we have mailed an Information Statement to our stockholders with respect thereto, which may not be earlier than 10 days after the Information Statement on Schedule 14C is filed with the Commission. We filed the preliminary Information Statement on Schedule 14C with the Commission on October 6 and hope to mail the definitive Information Statement to our stockholders on or about October 23, 2006, and therefore such stockholder action may not become effective any earlier than November 12, 2006.

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The Restructured Company

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

Cash of approximately \$8 million;

No debt, except for the mortgage on our headquarters in the amount of \$532,000, a \$150,000 demand note owed to one of our stockholders, and various auto loans and capitalized leases totaling approximately \$53,000;

One class of outstanding equity (common stock), with no outstanding preferred stock or convertible debt;

Approximately 78 employees;

Eight sales offices located in New York, Chicago, Salt Lake City, San Diego, Glendora, California, Danville, California, Carmel, California and Ventura, California;

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 (4 of the 7 directors have joined the board since October 2005) and senior management team (our CEO and our President are both new to the Company this year).

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.

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.

Table of Contents**Risks Related to Our Business*****We have a limited operating history upon which to evaluate our potential for future success.***

We were formed in December 1997. To date, we have generated limited revenues from the sale of our products and do not expect to generate significant revenues until we sell a significantly greater amount of our products and services. Accordingly, we have only a limited operating history upon which you can base an evaluation of our business and prospects. Moreover, we have acquired five businesses over the past six years and subsequently sold two of them because of changes in our overall strategy. The likelihood of our success must be considered in light of the risks and uncertainties frequently encountered by early stage companies like ours in an evolving market. If we are unsuccessful in addressing these risks and uncertainties, our business will be materially harmed or in the worst case, could fail.

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 and we currently have an accumulated deficit. These factors raise substantial doubt about our ability to continue as a going concern. 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 significant manufacturing hurdles, including gearing up to produce large quantities of product or arranging to outsource the production of our products, and 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 or services 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.

Our auditors have modified their opinion to our audited financial statements for the year ended December 31, 2005 to include an emphasis paragraph, stating that our continuing losses and negative cash flow from operations raise substantial doubt about our ability to continue as a going concern. We have recently raised gross proceeds of \$17,875,000 through the issuance of shares of our common stock, which has improved our current liquidity. We have also recently sold a subsidiary and acquired Parke Industries and Kapadia Consulting, Inc. (now named Kapadia Energy Services, Inc.) and we are in the process of making other changes to our business which we hope will lead to an improvement in our cash flow in future periods. Whether these changes will lead to us becoming cash flow positive remains to be seen.

Our independent registered public accountants have issued a going concern opinion raising doubt about our financial viability.

As a result of our continuing losses and negative cash flows, our independent registered public accounting firm, BDO Seidman, LLP, issued a going concern opinion in connection with their audit of our financial statements for the year ended December 31, 2005. This opinion expressed substantial doubt as to our ability to continue as a going concern. The going concern opinion could have an adverse impact on our ability to execute our business plan, result in the reluctance on the part of certain suppliers to do business with us, result in the inability to obtain new business due to potential customers' concern about our ability to deliver products or services, or adversely affect our ability to raise additional debt or equity capital.

Table of Contents***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.

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

Our principal products, our EnergySaver and eMAC products and our lighting retro-fit services and energy engineering services, have the greatest 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.

We have a license to use certain patents and our ability to sell our products may be adversely impacted if the license expires or is terminated.

We have entered into a license agreement with Messrs. Giorgio Reverberi and Joseph Marino with regard to the core technology used in our EnergySaver product. Mr. Reverberi holds a U.S. patent and has applied for several patents in other countries. Pursuant to the terms of the license, we have been granted the exclusive right to manufacture and sell products containing the load reduction technology claimed under Mr. Reverberi's U.S. patent or any other related patent held by him in the U.S., the remainder of North America, parts of South America and parts of Africa. However, the exclusive rights that we received may not have any value in territories where Mr. Reverberi does not have or does not obtain protectable rights. The term of the license expires when the last of these patents expires. We expect that these patents will expire around November 2017. The license agreement may be terminated if we materially breach its terms and fail to cure the breach within 180 days after we are notified of the breach. If our license is terminated it could impact our ability to manufacture, sell or otherwise commercialize EnergySaver products in those countries where Mr. Reverberi holds valid patents relating to our products, including the United States.

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 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. Furthermore, our patents and our license to use Mr. Reverberi's patents may have little or no value to us if our patents or Mr. Reverberi's patents are not valid. 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

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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 (other than Mr. Reverberi) to resolve claims of infringement by our products of the i