

LIME ENERGY CO.
Form S-1/A
January 26, 2007

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Securities to be Registered	Be Registered ⁽¹⁾	Per Share	Price	Fee ⁽⁴⁾
Rights to Purchase Common Stock, par value \$0.0001 per share ⁽²⁾	38,825,160	N/A	N/A	\$0 ⁽³⁾
Common Stock, par value \$0.0001	38,825,160	\$1.00	\$38,825,160	\$4,154.29

(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 38,825,160 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, and
\$974.97
previously paid
with amendment
to the
Registration
Statement filed
on Form
S-1 filed on
October 30,
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.

Table of Contents

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 January 26, 2007

PROSPECTUS

LIME ENERGY CO.

Up To 38,825,160 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 38,825,160 shares of our common stock at a cash subscription price of \$1.00 per share, or an aggregate of \$38,825,160. 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 ___, 2007. 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 ___, 2007, 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 January 24, 2007, the closing bid price of our common stock as reported on the OTC Bulletin Board was \$1.10 per share.

	Per Share	Aggregate
Subscription Price	\$ 1.00	\$ 38,825,160
Estimated Expenses	0.00	100,000
Net Proceeds to Lime Energy	\$ 1.00	\$ 38,725,160

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 14.

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 January 26, 2007.

TABLE OF CONTENTS

<u>About This Prospectus</u>	1
<u>Cautionary Note Regarding Forward-Looking Statements</u>	1
<u>The Rights Offering</u>	2
<u>Questions And Answers About The Rights Offering</u>	4
<u>Prospectus Summary</u>	9
<u>Risk Factors</u>	14
<u>Use Of Proceeds</u>	23
<u>Capitalization</u>	23
<u>The Rights Offering</u>	24
<u>Material United States Federal Income Tax Consequences</u>	33
<u>Plan Of Distribution</u>	34
<u>Legal Proceedings</u>	34
<u>Directors, Executive Officers, Promoters And Control Persons</u>	35
<u>Description Of Securities</u>	37
<u>Description Of Business</u>	39
<u>Selected Consolidated Financial Data</u>	45
<u>Management's Discussion And Analysis Of Financial Condition And Results Of Operations</u>	47
<u>Description Of Property</u>	64
<u>Certain Relationships And Related Transactions</u>	65
<u>Market For Common Equity And Related Stockholder Matters</u>	66
<u>Executive Compensation</u>	68
<u>Security Ownership Of Principal Stockholders And Management</u>	76
<u>Where You Can Find More Information</u>	77
<u>Legal Matters</u>	77
<u>Experts</u>	78
<u>Commission Position On Indemnification For Securities Act Liability</u>	78
<u>Financial Statements</u>	79
<u>Certificate of Incorporation</u>	
<u>Certificate of Amendment to Certificate of Incorporation dated August 30, 2001</u>	
<u>Certificate of Amendment to Certificate of Incorporation dated July 31, 2002</u>	
<u>Certificate of Amendment to Certificate of Incorporation dated May 4, 2005</u>	
<u>Certificate of Amendment to Certificate of Incorporation dated January 22, 2007</u>	
<u>Certificate of Ownership and Merger</u>	
<u>Certificate of Designations</u>	
<u>Certificate of Designation</u>	
<u>Certificate of Designations</u>	
<u>Certificate of Designations</u>	
<u>Certificate of Designations</u>	
<u>Specimen Subscription Certificate</u>	
<u>Opinion of Schwartz Cooper</u>	
<u>Consent of BDO Seidman LLP</u>	
<u>Consent of Marcum & Kliegman, LLP</u>	
<u>Consent of Rittenhouse Capital Partners, LLC</u>	
<u>Consent of BDO Seidman LLP</u>	
<u>Form of Instructions For Use of Electric City Subscription Rights</u>	
<u>Form of Notice of Guaranteed Delivery for Subscription Rights</u>	
<u>Form of Letter to Stockholders who are Record Holders</u>	
<u>Form of Letter to Stockholders who are Beneficial Holders</u>	
<u>Form of Letter to Clients of Stockholders</u>	
<u>Form of Nominee Holder Certification Form</u>	
<u>Form of Beneficial Owner Election Form</u>	

Substitute Form W-9 for Use with Rights Offering

Table of Contents

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 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

Table of Contents

THE RIGHTS OFFERING

Rights	We will distribute to each stockholder of record on ____, 2007, 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 38,825,160 shares and receive gross proceeds of up to \$38,825,160 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	____, 2007
Expiration Date	____, 2007, 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 <u>The Rights Offering</u> <u>Guaranteed Delivery Procedures</u> beginning on page 29. If you hold shares of our common stock through a broker, custodian bank or other nominee, see <u>How Rights Holders Can Exercise Rights Through Others</u> 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.

Table of Contents

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 ___, 2007, 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

OTC Bulletin Board Symbol for our common stock

LMEC

For additional information concerning the rights offering, see **The Rights Offering**, beginning on page 24.

Table of Contents

An investment in our common stock involves significant risks. See **Risk Factors** beginning on page 14.

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 ____, 2007, with each right evidencing the right to purchase one share of our common stock at a price of \$1.00, for a total of 38,825,160 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 ____, 2007, 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 17,875,000 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

Table of Contents

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, 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 ____, 2007, 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.

Table of Contents

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 (or the broker's equivalent 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 ____, 2007 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

Table of Contents

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 14.

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

A: The number of shares of common stock currently outstanding is 50,093,527. We may issue as many as 38,825,160 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 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 75% 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 38,825,160 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.

Table of Contents

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 24.

Table of Contents

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 include 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, increases our customer base and brings valuable energy engineering experience to the Company.

Table of Contents

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 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.

Table of Contents

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 50,093,527. 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:

	No. Of Shares Actually Acquired	Number Of Shares Held After Amendment and Reverse-Split	Number Of Catch Up Shares Issued
Stockholder			
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

Table of Contents***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 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 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. 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 but one 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 we issued 306,916 shares of common stock to these PIPE investors in satisfaction of the penalties owed through December 31, 2006. We are in the process of filing an amendment to the registration statement for these PIPE shares, which we hope will be declared effective some time during February, in the meantime we continue to accrue penalties at the rate of approximately

Table of Contents

\$178,750 per month, the majority of which will be satisfied through the issuance of additional shares of common stock.

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). 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.

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.

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 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 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.

Table of Contents

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 provisi