LIME ENERGY CO.
Form 424B4
September 22, 2009

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Filed Pursuant to Rule 424(b)(4)
Registration No. 333-161296

PROSPECTUS

5,000,000 Shares

Common Stock

We are offering 5,000,000 shares of our common stock. Our common stock is listed on The NASDAQ Capital Market under the symbol "LIME." The last reported sale price of our common stock on September 21, 2009 was $7.00 per share.

Investing in our common stock involves a high degree of risk. See "Risk Factors" beginning on page 9 of this prospectus.

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.

	Per Share	Total
Public offering price	$5.50	$27,500,000
Underwriting discount	$0.33	$1,650,000
Proceeds to us (before expenses)	$5.17	$25,850,000

We have granted the underwriters an option for a period of 30 days after the date of this prospectus to purchase up to 750,000 additional shares of common stock on the same terms and conditions set forth above to cover over-allotments, if any.

The underwriters expect to deliver the shares to purchasers on or about September 25, 2009.

Wedbush Securities **Canaccord Adams**

The date of this prospectus is September 21, 2009.

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You should rely only on the information contained in this document or to which we have referred you. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these securities. The information in this document may only be accurate on the date of this document.

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PROSPECTUS SUMMARY

This summary highlights information contained in other parts of this prospectus. You should read the entire prospectus carefully, especially the matters discussed under "Risk Factors," the Lime Energy consolidated financial statements, the Applied Energy Management financial statements, the Lime Energy pro forma consolidated financial information and the accompanying introductions and notes to those statements included elsewhere in this prospectus, before deciding to invest in shares of our common stock. Unless the context otherwise requires, the terms "Lime Energy," the "Company," "we," "our," "us" and similar expressions refers 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.

Overview

We are a leading provider of integrated energy engineering, consulting and implementation solutions specializing in improving the energy efficiency of our clients' facilities, thereby reducing their operating costs and carbon emissions. We focus on two specific markets: the commercial and industrial market, including utilities, and the public sector market, working primarily with energy service companies ("ESCOs"). Our clients include commercial and industrial businesses, property owners and managers, utilities, and ESCOs serving U.S. government and educational institutions. We focus on deploying solutions to reduce the energy-related expenditures of our clients' facilities and the impact of their energy use on the environment, including energy efficient lighting upgrades, energy efficiency mechanical and electrical retrofit and upgrade services, water conservation, weatherization and renewable project development and implementation. We provide energy efficiency solutions across all of our clients' facilities, ranging from high-rise office buildings to manufacturing plants, retail sites, mixed use complexes and large, government sites to small, local facilities.

We believe the following factors continue to drive demand for energy efficiency services by facility owners in both the U.S. commercial and industrial and public sector markets:

- the potential for immediate return on investment and demonstrable long-term cost savings resulting from the installation of energy efficient solutions;
- concerns regarding the substantial and volatile cost of energy, the adverse implication of global climate change and the desire for energy independence;
- increasing pressure on corporations to establish and attain sustainability goals;
- increasing regulatory pressures on utilities to include energy efficiency and renewable energy in their resource plans;
- the availability of rebates and tax incentives both at a federal and state level for organizations that reduce their energy consumption;
- existing and prospective government mandates to improve the efficiency of federal facilities;
- the allocation of funds under the American Recovery and Reinvestment Act of 2009 ("ARRA") to promote energy efficiency and alternative energy projects in federal, state and local municipal facilities; and
- the migration towards a low-carbon economy which will potentially place a price or tax on the carbon emissions of our clients.

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We offer our clients a full range of services to address the energy efficiency needs of their facilities based on our ability to identify and deliver significant return on our clients' investments, improve the quality of their physical workspaces, maximize their operational savings and reduce their maintenance costs. Our turnkey services include:

Energy Engineering and Consulting: We apply our engineering expertise to analyze each client's energy consumption and operational needs and develop customized energy efficiency and renewable energy solutions. Our energy engineering and consulting services include sustainability consulting, energy master planning, project development services, design engineering and facility e-commissioning. We also provide design review and analysis of new construction projects to maximize energy efficiency and sustainability, project management of energy-related construction, and processing and procurement of incentive and rebate applications.

Implementation: We provide complete turnkey implementation services for a range of energy efficiency and renewable energy projects, including energy efficient lighting upgrades, energy efficiency mechanical and electrical retrofit and upgrade services, water conservation, weatherization and renewable project development and implementation, including solar, biomass and geothermal. We consider factors such as current facility infrastructure, best available technologies, building environmental conditions, hours of operation, energy costs, available utility rebates and tax incentives, and installation, operation and maintenance costs of various efficiency alternatives. Our professionals' extensive knowledge in energy efficiency solutions enables us to apply the most appropriate, effective and proven technologies available in the marketplace.

We serve a wide range of commercial and industrial and public sector clients. Our commercial and industrial clients include many Fortune 500 companies for which we provide our energy efficiency solutions directly, as well as utilities for which we manage energy efficiency portfolio projects. Our public sector clients include government agencies and educational institutions, which we serve both through our relationships with ESCOs and directly. ESCOs are awarded project contracts with the public sector as prime contractors, and we provide energy efficiency expertise to develop and implement tailored solutions under these contracts.

We believe we have a national presence in all the key states which have instituted mandates and initiatives to support facility energy efficiency projects. We have approximately 380 employees in 23 offices across 13 states. Our offices are staffed with professionals who have significant expertise in facility energy efficiency engineering and consulting and the implementation of a wide range of related technologies for both the commercial and industrial and the public sector markets. We are able to maintain a highly scalable and leveragable platform by deploying our professional employees to work on projects in either market based on our work requirements and local end client needs.

Our revenue increased by $7.8 million, or 13.7%, to $65.1 million during 2008 from $57.3 million during 2007 on a pro forma basis reflecting our revenues combined with those of Applied Energy Management, Inc., which we acquired on June 11, 2008. Our revenue for the first six months of 2009 has grown by 57.3% to $29.5 million from pro forma revenue of $18.8 million during the same period in 2008. We have invested significant capital and resources to build our business infrastructure to ensure that we have the operational platform to support continued future growth.

Market Overview

According to the U.S. Department of Energy ("DOE"), the United States consumes more energy than any other country in the world. The United States is primarily dependent on traditional fossil fuels to supply energy for end users, which includes transportation, heating and electricity. Recently, nearly all energy costs have risen due to a variety of factors, including the concern over a limited supply of fuel to meet increasing global demand.

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We believe that energy efficiency, which we define as reducing the amount of energy used to operate facilities and produce goods and services, is the most immediate, opportunistic and economic means to reduce energy costs to the end user and promote environmental stewardship. At a minimum, energy efficiency accomplishes the following four objectives:

- delivers immediate energy cost savings;
- reduces greenhouse gas emissions to help alleviate climate change;
- stimulates the economy through the creation of new jobs in the "green" segment; and
- bolsters national security by reducing dependence on foreign oil.

The value of energy efficiency as a resource is affirmed by the increasing emphasis placed on it in regulation, legislation and appropriations. The American Council for an Energy Efficient Economy ("ACEEE") estimates that $300 billion was invested in energy efficiency technologies and infrastructure in the U.S. in 2004, and that annual investment may grow to $700 billion by 2030 in conjunction with the goal of reducing energy use by 20%. Total additional investment from 2008 to 2030 could reach nearly $7 trillion. We believe these investments in energy efficiency solutions will have a significant impact on both the demand for and costs of electricity, while improving the overall sustainability of the global energy market.

Our Competitive Strengths

We believe that we have the following competitive strengths:

Compelling Value Proposition with Demonstrable ROI. Our energy efficiency solutions guarantee the reduction of our clients' operating expenses, improve their facilities' appearance, safety and functionality, and produce a significant return on their investment. For example, in lighting projects, we calculate that our clients typically achieve first-year returns on their investments of 40% to 100%, generally recovering the cost of our services in less than two years in the form of reduced energy bills and maintenance costs as well as utility and government agency rebates and tax incentives.

Extensive Technical Expertise. We provide our clients with a full range of energy efficiency solutions leveraging our deep experience in this rapidly evolving marketplace. Our extensive knowledge of a wide range of service and technology options for our clients allows us to provide effective and comprehensive energy efficiency solutions including energy efficiency engineering and consulting as well as the development and implementation of energy efficient lighting, mechanical, electrical, water, weatherization, and renewable energy solutions.

Diversification Across Service Lines and End Markets. While many of our competitors focus on one type of service or technology, we offer a broad spectrum of vertically integrated, turnkey energy efficiency solutions that can be deployed on a national scale. We purchase our products from independent third party manufacturers and therefore can provide unbiased product recommendations to our clients.

National Service Capabilities. Unlike smaller local and regional providers, we are able to service our clients on a national scale. Our reputation for quality service and reference base of existing clients have helped us to expand our business to include many large, nationally recognized companies operating across a variety of industries, including many Fortune 500 companies.

Strong and Longstanding Client Relationships. We have developed deep relationships with commercial and industrial and public sector clients both managed directly by us and through our longstanding relationships with many of the major ESCOs that participate in that market.

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Significant Repeat Revenue. The depth and breadth of our geographic coverage and our service offerings enables us to increase the value of our client relationships by increasing the services we can offer them. Our longstanding relationships with national clients provide an opportunity for us to provide additional energy efficiency solutions to them across multiple facilities on a regional and national basis. Most of our engineering and consulting work results in repeat revenue in the form of additional engineering work, implementation of specific solutions or expansion of the engineering work to additional client facilities.

Growth Strategy

Since launching our Energy Efficiency Services business in June 2006, we have significantly increased our revenue. Our revenue for the first six months of 2009 increased by 57.3% to $29.5 million from our pro forma revenue of $18.8 million for the first six months of 2008, reflecting significant organic growth. We intend to continue to leverage our competitive strengths and to continue to grow our business by employing the following growth strategies:

Penetrate Opportunities in Existing Commercial and Industrial Clients and Increase Client Base. We have a broad client base that includes Fortune 500 companies and large property managers and owners. These clients own or manage a significant number of facilities across the United States. For many of these clients, we have implemented only a portion of our energy efficiency solutions at a limited number of the facilities they manage or own. We also have relationships with major utility companies who actively seek our project management and implementation services for energy efficiency projects.

Capitalize on Existing ESCO Relationships and Establish New Relationships in the Public Sector Market. We have long-established relationships with ESCOs that participate in the performance contracting market for the federal government and public sector, working on projects such as schools and universities as well as city and county facilities, throughout the U.S. and internationally. We believe these market opportunities will grow as the federal government awards new ESPC contracts and additional states enact legislation that enables performance contracting as a viable contracting vehicle.

Capitalize on Government Funding Energy Efficiency Initiatives. We are seeking to ensure that when ARRA and other incentive funds become available, we are optimally positioned to benefit as our clients deploy these funds on facility energy efficiency projects. We have an active dialogue with our ESCO relationships and an established platform ready to begin work on energy efficiency projects once these funds are deployed by federal, state and local agencies. In addition, we intend to work collaboratively with energy efficiency-focused non-government organizations to capitalize on the government mandates currently in place.

Expand Our Financing Business. Upfront capital expenditure requirements remain the primary purchasing obstacle for many of our prospective commercial and industrial clients. With a strengthened balance sheet following this offering, we plan to resume our provision of financing mechanisms to enable prospective clients to benefit from extended payment terms, eliminating upfront capital requirements, while enabling immediate positive cash flow from the implementation of energy efficiency projects.

Deepen Our Service Offerings Based on Customer Demand and ROI Opportunities. Constant changes in energy efficiency technologies often create opportunities for us to provide new solutions to our clients generally three to five years after completion of an energy efficiency project. As new products and technologies become available and costs decline to the point that the ROI opportunity from implementation becomes compelling, we can introduce these improved technologies to existing clients as a means of further reducing their operating costs.

Continue to Manage Operating Costs. We believe we have established a highly scalable business model that will enable us to continue our growth while maintaining relatively low incremental operating

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expenses. We plan to continue to scale our platform with new hires, while we aggressively leverage our relationships with energy efficiency-focused organizations, improve sales force productivity, manage key supplier relationships and maintain a disciplined cost structure.

Pursue Targeted Strategic Acquisitions. Given the highly fragmented nature of the energy efficiency solutions market, we believe there are numerous potential acquisition opportunities. Our senior management team historically has identified and successfully integrated prior acquisitions. We intend to selectively pursue acquisitions to leverage our established infrastructure, strategically address select target markets, add complementary expertise and cross-sell our services and technologies to an acquired company's existing client base.

Risk Factors

Our business is subject to a number of risks that you should understand before making an investment decision. These risks are discussed more fully in the section entitled "Risk Factors" following this prospectus summary. Some of these risks are:

- we have a limited operating history under our current business model in a rapidly evolving market, which may make it difficult to evaluate our business and prospects, and may expose us to increased risks and uncertainties;
- we have incurred significant operating losses since inception and may not achieve or sustain profitability in the future;
- unavailability of additional funding in the future may impair our growth;
- the current economic downturn could diminish the demand for our services and products;
- it is difficult for us to estimate our future quarterly results;
- we operate in a highly competitive industry and if we are unable to compete successfully our revenue and profitability will be adversely affected; and
- we may be unable to obtain sufficient bonding capacity to support certain service offerings.

Corporate Information

We were organized as a Delaware limited liability company in December 1997 and merged into a Delaware corporation in June 1998. In September 2006, our corporate name was changed from Electric City Corp. to Lime Energy Co. Our common stock trades on The NASDAQ Capital Market under the symbol "LIME".

Our executive offices are located at 1280 Landmeier Road, Elk Grove Village, Illinois, 60007-2410, and our telephone number is (847) 437-1666. Our website address is *www.lime-energy.com.* The information on, or that can be accessed through, our website is not part of this prospectus.

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The Offering

Common stock offered by us	5,000,000 shares
Common stock to be outstanding after this offering	22,723,966 shares
Use of proceeds	We intend to use $3.2 million of our net proceeds from this offering to repay indebtedness. We intend to use the remaining net proceeds from this offering for working capital and general corporate purposes. See "Use of Proceeds."
NASDAQ Capital Market symbol	"LIME"
Risk Factors	See "Risk Factors" and other information included in this prospectus for a discussion of some of the factors you should consider before deciding to purchase our common stock.

The share information above is based on 17,356,461 shares of our common stock outstanding as of September 21, 2009 and includes:

- 3,777,705 shares of our common stock issued on the conversion of all of our outstanding Series A-1 convertible preferred stock on August 10, 2009;
- 487,054 shares of common stock issued on the conversion of $3.1 million of our convertible subordinated notes on August 10, 2009; and
- 367,505 shares of our common stock that will be issued upon the conversion of the remaining $1.9 million of outstanding convertible subordinated notes which will occur upon the consummation of this offering at a conversion price of $5.17 per share.

The total shares outstanding on September 21, 2009 excludes:

- 2,568,395 shares of our common stock issuable upon the exercise of options outstanding as of September 21, 2009 with a weighted average exercise price of $16.78 per share; and
- 910,942 shares of our common stock issuable upon the exercise of outstanding warrants as of September 21, 2009, with a weighted average exercise price of $9.21 per share.

Unless we indicate otherwise, the information in this prospectus assumes that the underwriters will not exercise their over-allotment option, and that the options and warrants described above will not be exercised. Unless we indicate otherwise, the information in this prospectus reflects the conversion of our Series A-1 Convertible Preferred Stock and $3.1 million of our outstanding convertible subordinated notes on August 10, 2009 and the conversion of the remaining $1.9 million of our outstanding convertible subordinated notes into 367,505 shares of our common stock upon the consummation of this offering.

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Summary Historical and Pro Forma Combined Financial Information and Other Data

The following table shows our summary historical and pro forma combined financial and other data and should be read along with "Pro Forma Consolidated Financial Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations," the Lime Energy consolidated financial statements, the AEM consolidated financial statements, and the accompanying notes to those statements included in this prospectus.

The summary financial data set forth below for the years ended December 31, 2008, 2007 and 2006 is derived from the Lime Energy audited financial statements included in this prospectus. Lime Energy's audited financial statements included in this prospectus for the years ended December 31, 2008, 2007, and 2006 have been revised to reflect Lime Energy's Energy Technology segment as a discontinued operation, which the Company sold on August 10, 2009. The Lime Energy summary financial data for the six-month periods ended June 30, 2008 and 2009 is derived from our unaudited financial statements; however, such information reflects all adjustments (consisting solely of normal recurring adjustments), which, in the opinion of management, are necessary for a fair statement of results for the interim periods. The summary financial information for the six-month period ended June 30, 2008 has been revised to reflect Lime Energy's Energy Technology segment as discontinued operations.

Our pro forma results of operations data present:

- our pro forma results of operations for the year ended December 31, 2008, as if the acquisition of AEM, which we completed on June 11, 2008, had occurred on January 1, 2008; and

- our pro forma results of operations for the six months ended June 30, 2008, as if the acquisition of AEM, which we completed on June 11, 2008, had occurred on January 1, 2008.

Our pro forma as adjusted balance sheet as of June 30, 2009, presents selected balance sheet information as of June 30, 2009, on a pro forma basis adjusted to reflect the conversion of the Series A-1 Convertible Preferred Stock and the convertible subordinated notes, and the net proceeds of this offering, assuming the underwriters do not exercise their over-allotment option, being used to retire $3.4 million in notes payable, which was the outstanding balance on the notes as of June 30, 2009.

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Our pro forma and as adjusted results are not necessarily indicative of what actually would have occurred if the acquisition had been consummated, and this offering had been completed, on the dates indicated, nor are they necessarily indicative of our future operating results.

	Year Ended December 31,				Six Months Ended June 30,		
	2006	2007	2008	2008 (pro forma)	2008 (unaudited)	2008 (pro forma)	2009 (unaudited)
Statement of Operations Data:							
Revenue	$ 5,488,693	$ 16,383,779	$ 54,975,084	$ 65,111,756	$ 8,624,744	$ 18,761,416	$ 29,519,945
Cost of sales	5,095,566	12,755,928	43,281,049	51,682,262	7,688,012	16,089,225	23,872,726
Gross profit	393,127	3,627,851	11,694,035	13,429,494	936,732	2,672,191	5,647,219
Selling, general and administrative	9,082,411	9,259,455	18,100,309	22,306,277	6,821,421	11,027,389	10,781,982
Amortization of intangibles	625,625	1,486,509	1,568,107	2,129,504	381,666	1,263,491	658,201
Impairment loss	1,183,525						
Operating loss	(10,498,434)	(7,118,113)	(7,974,381)	(11,006,287)	(6,266,355)	(9,618,689)	(5,792,964)
Interest expense, net	(3,061,856)	(668,069)	(2,581,336)	(3,393,233)	(860,977)	(1,574,968)	(839,875)
Loss from continuing operations	(13,560,290)	(7,786,182)	(10,555,717)	(14,399,520)	(7,127,332)	(11,193,657)	(6,632,839)
Loss from discontinued operations	(2,887,224)	(7,766,546)	(2,479,809)	(2,479,809)	(1,636,630)	(1,636,630)	(1,029,223)
Net loss	$ (16,447,514)	$ (15,552,728)	$ (13,035,526)	$ (16,879,329)	$ (8,763,962)	$ (12,830,287)	$ (7,662,062)
Preferred stock dividends	(24,347,725)		(288,014)	(288,014)			(1,202,185)
Net loss available to common stockholders	$ (40,795,239)	$ (15,552,728)	$ (13,323,540)	$ (17,167,343)	$ (8,763,962)	$ (12,830,287)	$ (8,864,247)
Basic and diluted loss per common share from continuing operations(1)	$ (9.86)	$ (1.03)	$ (1.29)	$ (1.66)	$ (0.91)	$ (1.29)	$ (0.65)
Basic and diluted loss per common share(1)	$ (10.61)	$ (2.06)	$ (1.59)	$ (1.94)	$ (1.12)	$ (1.48)	$ (0.74)
Weighted average common shares outstanding(1)	3,844,087	7,541,960	8,381,697	8,835,463	7,838,010	8,691,210	12,054,940

(1) During 2007 we effected a 1-for-15 reverse stock split. During 2008 we effected a 1-for-7 reverse stock split. The weighted average common shares outstanding and the earnings per share values have all been adjusted to reflect these reverse splits.

	Six Months Ended June 30, 2009 (unaudited)	
Balance Sheet Data:	**Actual**	**Pro forma As Adjusted(1)**
Cash and cash equivalents	$ 4,673,040	26,728,924
Working capital	6,327,608	35,161,610
Total assets	57,844,825	79,898,096
Long-term debt, including current portion	6,175,506	787,887
Total stockholders' equity	$ 31,776,080	61,202,744

(1) Pro forma as adjusted balance sheet reflects the conversion of our Series A-1 Preferred Stock and convertible subordinated notes, repayment of $3.4 million of notes payable from the net proceeds of the offering, and the sale of certain assets of our Energy Technology segment.

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RISK FACTORS

Investing in our common stock involves a high degree of risk and uncertainty. Before making an investment in our common stock, you should carefully consider the following risks, as well as the other information contained in this prospectus, including the Lime Energy consolidated financial statements, the AEM consolidated financial statements, the pro forma consolidated financial information and the accompanying introductions and notes to those statements, and "Management's Discussion and Analysis of Financial Condition and Results of Operations." If any of the following risks occur, our business, prospects, financial condition and results of operations or future growth could suffer. As a result, the trading price of our common stock could decline and you may lose all or part of your investment. The risks described below are not the only risks facing our Company. Additional risks not presently known to us or which we currently consider immaterial also may adversely affect our Company.

Risks Related to Our Business

We have a limited operating history under our current business model in a rapidly evolving market, which may make it difficult to evaluate our business and prospects, and may expose us to increased risks and uncertainties.

Our business has evolved substantially over time through organic growth and strategic acquisitions. Our current business model has only been in operation since June 2006, when we launched our Energy Efficiency Services business. Accordingly, we have only a limited history of generating revenues under our current business model, and the future revenue potential of our current business model in the rapidly evolving energy efficiency solutions market is uncertain. As a result of our short operating history under our current business model, we have limited financial data that can be used to evaluate our business, strategies, performance and prospects or an investment in our common stock. Any evaluation of our business and our prospects must be considered in light of our limited operating history under our current business model and the risks and uncertainties encountered by companies with new business models. To address these risks and uncertainties, among other things, we must do the following:

- maintain and expand our current relationships and develop new relationships with commercial and industrial businesses, property owners and managers and energy service companies, or "ESCOs," serving government and educational institutions;
- maintain and enhance our existing energy efficiency solutions;
- execute our business and marketing strategies successfully;
- respond to competitive developments; and
- attract, integrate, retain and motivate qualified personnel.

We may be unable to accomplish one or more of these objectives, which could cause our business to suffer and could have a material adverse effect on our business, results of operations and financial condition. In addition, accomplishing many of these goals might be very expensive, which could adversely impact our operating results and financial condition. Additionally, any predictions about our future operating results may not be as accurate as they could be if we had a longer operating history under our current business model.

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

We have experienced losses and negative cash flow from operations since our inception and we currently have an accumulated deficit. We must increase sales while maintaining or improving our margins to operate profitably and sustain positive operating cash flows. We may be required to reduce

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the prices of our 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 for: (i) general corporate purposes, including working capital, marketing, recruiting and hiring additional personnel; and (ii) acquisitions. To the extent that our revenues do not increase as quickly as these costs and expenditures, our results of operations and liquidity will be adversely affected. We expect to continue to incur operating losses in future periods. If we experience slower than anticipated revenue growth or if the gross margins we earn on our sales are lower than expected or our operating expenses exceed our expectations, we may not achieve profitability in the future or if we achieve profitability in the future, we may not be able to sustain it. As we grow, our working capital requirements are likely to increase. We may need additional funds in the form of a bank working capital line to support this increased working capital. If in the future we cannot obtain bank financing it could limit our ability to grow our business to the point that it is profitable on a consistent basis.

In addition, because of our negative cash flow, we have funded our operations through the issuance of common and preferred stock and debt. Our ability to continue to operate until our cash flow turns positive may depend on our ability to continue to raise additional funds through the issuance of equity or debt. If we are not successful in raising any needed additional funds, we might have to significantly scale back or delay our growth plans, or sell or shut down some of our businesses. Any reduction or delay in our growth plans could materially adversely affect our ability to compete in the marketplace, take advantage of business opportunities and develop or enhance our services and technologies, which could have a material adverse effect on our business, results of operations and financial condition.

The current widespread economic downturn and uncertainty and turmoil in the equity and credit markets could adversely impact our clients, diminish the demand for our services and products, and harm our operations and financial performance.

The energy efficiency solutions marketplace has experienced rapid evolution and growth, but we do not know how sensitive it is to a recession or downturn in the general economy. The current recession could harm the economic health of our clients and consequently decrease the demand for our products or services, particularly in the commercial and industrial markets. The recession also may cause reductions or elimination of utility or government energy efficiency incentive programs used to partially fund the costs of customer projects. In addition, increased competition during the recession may result in lower sales, reduced likelihood of profitability, and diminished cash flow to us.

Further, the sales of our energy efficiency solutions are made on the basis of contracts that permit our customers to terminate the engagement prior to completion rather than long-term purchase commitments and consequently our clients may cancel, delay or otherwise modify their purchase commitments in response to economic pressures with little or no consequence to them and with little or no notice to us. Whether in response to an economic downturn affecting an industry or a client's specific business including its bankruptcy or insolvency, any cancellation, delay or other modification in our clients' orders could significantly reduce our revenue, impact our working capital, cause our operating results to fluctuate from period to period and make it more difficult for us to predict our revenue.

It is difficult for us to estimate our future quarterly operating results.

A significant portion of our revenue is seasonal. Historically, this seasonality has caused our revenue, operating income, net income and cash flow from operating activities to be lower in the first two quarters and higher in the last two quarters of each year. The concentration of earnings and cash flow in the fourth quarter is primarily due to our clients' budget cycles. Further, many of our clients purchase our energy efficiency solutions on the basis of cancellable short-term agreements for projects

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that can be completed in a matter of weeks rather than long-term purchase commitments. Consequently, we do not have a constant and predictable stream of revenue from those clients. Additionally, because a few large projects are often responsible for a significant portion of our revenue from public sector clients, the level of activity, initial project delays or gaps between projects have historically led to significant fluctuations of revenue on an irregular basis throughout the fiscal year. As a result, we may be unable to forecast our revenue accurately, and a failure to meet our revenue or expense forecasts could have an immediate and negative impact on the market price of our common stock.

We operate in a highly competitive industry and if we are unable to compete successfully our revenue and profitability will be adversely affected.

The energy efficiency solutions market is highly competitive, and we expect competition to increase and intensify as the energy efficiency solutions market continues to evolve. We face strong competition primarily from lighting and lighting fixture manufacturers, lighting fixture distributors, providers of energy efficiency lighting upgrades and maintenance, small regional providers of energy efficiency solutions and local electrical and mechanical contractors. As we extend energy efficiency offerings that are currently available to our public sector clients to our commercial and industrial clients, we expect to face additional competition from providers of those services in the commercial and industrial market. We compete primarily on the basis of client service and support, quality and scope of services and products, cost of services and products, ability to service clients on a national level, name recognition and financial resources and performance track record for services provided.

In addition to our existing competitors, new competitors such as large national or multinational engineering and/or construction companies could enter our markets. Many of these current and potential competitors are better capitalized than we are, have longer operating histories and strong existing client relationships, greater name recognition, and more extensive engineering and sales and marketing capabilities. Competitors could focus their substantial resources on developing a competing business model or energy efficiency solutions that may be potentially more attractive to clients than our products or services. In addition, we may face competition from other products or technologies that reduce demand for electricity. Our competitors may also offer energy efficiency solutions at reduced prices in order to improve their competitive positions. If our ESCO clients internally develop sufficient energy efficiency expertise they may no longer outsource work to us. Any of these competitive factors could make it more difficult for us to attract and retain clients, require us to lower our prices in order to remain competitive, and reduce our revenue and profitability, any of which could have a material adverse effect on our results of operations and financial condition.

We may be unable to obtain sufficient bonding capacity to support certain service offerings.

A significant number of our public sector contracts require surety bonds to guarantee our performance and payment to our suppliers and subcontractors. Bonding capacity for construction projects has become increasingly difficult to obtain, and bonding companies are denying or restricting coverage to an increasing number of contractors. Some sureties have required us to post collateral, guarantees, agreements of indemnity and letters of credit to secure the performance and surety bonds. One of our directors has agreed to provide us with letters of credit for up to an aggregate total of $10.0 million, but his obligation will expire upon the completion of this offering. We intend to use a portion of the proceeds from this offering to replace the collateral provided by these letters of credit. This collateral may be insufficient to support our continuing need for surety bonds, which could preclude us from being able to bid for certain contracts and successfully contract with certain customers. If we are unable to obtain surety bonds, our business, results of operations and financial condition could be materially adversely affected.

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Our success is largely dependent upon the skills, experience and efforts of our senior management and our ability to attract and retain highly qualified engineers and other skilled personnel, and the loss of their services or our inability to attract and retain such personnel could have a material adverse effect on our ability to expand our business or to maintain profitable operations.

Our future success will depend largely on the skills, efforts, and motivation of our executive officers and other senior managers. The loss of the service of executive officers and other senior managers or our inability to attract or retain other qualified personnel could have a material adverse effect on our ability to expand our business, implement our strategy or maintain profitable operations.

In addition, to execute our growth strategy and maintain our margins, we must attract and retain highly qualified engineers, other skilled personnel and an effective sales force that can accurately price our clients' energy efficiency solution contracts. Competition for hiring these individuals is intense, especially with regard to engineers specializing in the energy efficiency solutions market. If we fail to attract and retain highly qualified engineers and other skilled personnel, our business and growth prospects could be materially adversely affected.

We depend upon a limited number of clients in any given period to generate a substantial portion of our revenue.

Historically, we did not have long-term contracts with our clients, and our dependence on individual key clients varied from period to period as a result of the significant size of some of our retrofit and multi-facility roll-out projects. In 2008, two clients accounted for approximately 24% of our consolidated revenue. On a pro forma basis, our top 10 clients accounted for approximately 60% and 68%, respectively, of our total revenue in fiscal 2008 and 2007, and 65% and 46%, respectively, of our fiscal 2009 and pro forma 2008 first six-month total revenue. We expect large retrofit and roll-out projects to become a greater component of our total revenue in the near term. As a result, we may experience more client concentration in any given future period. The loss of, or substantial reduction in sales to, any of our significant clients could have a material adverse effect on our business, results of operations and financial condition in any given future period.

Our public sector business depends on a limited number of ESCOs under contract by government and other public end-users.

A significant portion of our public sector business revenue is generated through our relationship with a limited number of ESCOs that provide energy efficiency services to government and other public end-users. If for any reason government spending on energy efficiency services is reduced or postponed or government and other public end-users shift contracts to ESCOs with whom we do not have established relationships, this may have a significant negative impact on our business, results of operations and financial condition. Further, our public sector projects typically have long payment cycles that may impact our liquidity and which could have a material adverse effect on our results of operations in any given future period.

Failure of our subcontractors to properly and effectively perform their services in a timely manner could cause delays in the delivery of our energy efficiency solutions.

Our success depends on our ability to provide quality, reliable energy efficiency solutions in a timely manner, which in part requires the proper removal and installation of lighting, mechanical and electrical systems and other products by our contractors and subcontractors upon which we depend. A significant portion of our energy efficiency solutions are installed by contractors or subcontractors. Any delays, malfunctions, inefficiencies or interruptions in our energy efficiency solutions caused by improper installation could cause us to have difficulty retaining current clients and attracting new clients. Such delays could also result in additional costs that could affect the profit margin of our projects. In addition, our brand, reputation and growth could be negatively impacted.

If our information technology systems fail, or if we experience operation interruptions, then our business, results of operations and financial condition could be materially adversely affected.

The efficient operation of our business is dependent on our information technology systems. We rely on those systems generally to manage the day-to-day operation of our business, manage relationships with our clients and maintain our financial and accounting records. The failure of our information technology systems, our inability to successfully maintain and enhance our information technology systems, or any compromise of the integrity or security of the data we generate from our information technology systems, could have a material adverse effect on our results of operations, disrupt our business and make us unable, or severely limit our ability, to respond to client demands. In addition, our information technology systems are vulnerable to damage or interruption from:

- earthquake, fire, flood and other natural disasters;
- employee or other theft;
- attacks by computer viruses or hackers;
- power outages; and
- computer systems, Internet, telecommunications or data network failure.

Any interruption of our information technology systems could result in decreased revenue, increased expenses, increased capital expenditures, client dissatisfaction and potential lawsuits, any of which could have a material adverse effect on our results of operations or financial condition.

Product liability and personal injury claims could have a material adverse effect on our business, results of operations and financial condition.

We face exposure to product liability and personal injury claims in the event that our energy efficiency solutions fail to perform as expected or cause bodily injury or property damage. Since the majority of our products use electricity, it is possible that the products we sell could result in injury, whether by product malfunctions, defects, improper installation or other causes. Particularly because the products we sell often incorporate new technologies or designs, we cannot predict whether or not product liability claims will be brought against us in the future or result in negative publicity about our business or materially adversely affect our client relations. Further, we face exposure to personal injury claims in the event that an individual is injured as a result of our negligence. Moreover, we may not have adequate resources in the event of a successful claim against us. A successful product liability or personal injury claim against us that is not covered by insurance or is in excess of our available insurance limits could require us to make significant payments of damages which could materially adversely affect our results of operations and financial condition.

Our retrofitting process frequently involves responsibility for the removal and disposal of components containing hazardous materials and at times requires that our contractors or subcontractors work in hazardous conditions, either of which could give rise to a claim against us.

When we retrofit a client's facility, we typically assume responsibility for removing and disposing of its existing lighting fixtures. Certain components of these fixtures typically contain trace amounts of mercury and other hazardous materials. Older components may also contain trace amounts of polychlorinated biphenyls, or PCBs. We utilize licensed and insured hazardous wastes disposal companies to dispose of such components. Failure to properly handle, remove or dispose of the components containing these hazardous materials in a safe, effective and lawful manner could give rise

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to liability for us, or could expose our workers or other persons to these hazardous materials, which could result in claims against us. Further, our workers are sometimes required to work in hazardous environments that present a risk of serious personal injury which could result in claims against us. A successful personal injury claim against us that is not covered by insurance or is in excess of our available insurance limits could require us to make significant payments of damages and could materially adversely affect our results of operations and financial condition.

If we are unable to manage our anticipated revenue growth effectively, our operations and profitability could be adversely affected.

We intend to undertake a number of strategies in an effort to grow our revenue. If we are successful, our revenue growth may place significant strain on our limited resources. To properly manage any future revenue growth, we must continue to improve our management, operational, administrative, accounting and financial reporting systems and expand, train and manage our employee base, which may involve significant expenditures and increased operating costs. Due to our limited resources and experience, we may not be able to effectively manage the expansion of our operations or recruit and adequately train additional qualified personnel. If we are unable to manage our anticipated revenue growth effectively, the quality of our client care may suffer, we may experience client dissatisfaction, reduced future revenue or increased warranty claims, and our expenses could substantially and disproportionately increase. Any of these circumstances could adversely affect our business, results of operations and financial condition.

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

Our future growth may depend, in part, upon our ability to successfully identify, acquire and operate other complementary businesses. Any acquisition contemplated or completed by us may result in adverse short term effects on our reported results of operation; divert management's attention; introduce risks associated with unanticipated problems or legal liabilities; cause the incurrence of additional debt; cause the issuance of additional equity; or introduce contingent liabilities and amortization expenses related to intangible assets, some or all of which could harm our business, results of operations and financial condition.

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

Our ability to use our net operating loss carry forwards will be subject to additional limitation, which could potentially result in increased future tax liability.

Generally, a change of more than 50% in the ownership of a company's stock, by value, over a three-year period constitutes an ownership change for U.S. federal income tax purposes. An ownership change may limit a company's ability to use its net operating loss carry forwards attributable to the period prior to such change. We have sold shares of our common stock in various transactions sufficient to constitute an ownership change. As a result, if we earn net taxable income, our ability to use our pre-change net operating loss carry forwards, which amounted to $77 million as of December 31, 2008, to offset U.S. federal taxable income will be subject to limitations, which will likely result in increased future tax liability. This offering and the conversion of our outstanding preferred stock and the conversion of all of our outstanding convertible notes upon the closing of this offering will constitute a further ownership change that will further limit our ability to use our pre-change net operating loss carry forwards. In addition, future shifts in our ownership, including transactions in which we may engage, may cause additional ownership changes, which could have the effect of imposing additional limitations on our ability to use our pre-change net operating loss carry forwards.

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Risks Related to this Offering and Ownership of our Common Stock

The future trading market for our common stock may not be active on a consistent basis and the market price of our common stock could be subject to significant fluctuations after this offering.

Trading in our common stock has been limited and, at times, volatile since our shares were listed on The NASDAQ Capital Market in February 2008. The trading volume of our common stock in the future depends in part on our ability to increase our revenue and reduce or eliminate our operating losses. If we are unable to achieve these goals, the trading market for our common stock may be negatively affected, which may make it difficult for you to sell your shares. An active trading market for our common stock may not develop or, if developed, be sustained, and the trading price of our common stock may fluctuate substantially.

The price of our common stock may also fluctuate as a result of:

- variations in our operating results;
- announcements by us, our competitors or others of significant business developments, changes in client relationships, acquisitions or expansion plans;
- analysts' earnings estimates, ratings and research reports;
- the depth and liquidity of the market for our common stock;
- speculation in the press;
- strategic actions by us or our competitors, such as sales promotions or acquisitions;
- actions by institutional and other stockholders;
- recruitment or departure of key personnel; or
- domestic and international economic factors and trends, some of which may be unrelated to our performance.

The stock markets, in general, periodically experience volatility that is sometimes unrelated to the operating performance of particular companies. These broad market fluctuations may cause the trading price of our common stock to decline; in particular, you may not be able to resell your shares at or above the public offering price.

In the past, following a period of volatility in the market price of a company's securities, securities class action litigation has often been brought against a company. Because of the potential volatility of our common stock price, we may become the target of securities litigation in the future. Securities litigation could result in substantial costs and divert management's attention and resources from our business.

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

There were 17,356,461 shares of our common stock outstanding as of September 21, 2009, of which a total of 11 investors beneficially own in the aggregate 81.0%. On a pro forma basis, assuming the issuance of 5,000,000 shares as part of this offering, and the conversion of the subordinated notes at $5.17 per share, these same 11 investors would beneficially own 61.8% of our outstanding common stock. As a result of their significant ownership, these investors may have the ability to exercise a controlling influence over our business and corporate actions requiring stockholder approval, including the election of our directors, a sale of substantially all of our assets, a merger between us and another entity or an amendment to our certificate of incorporation. This concentration of ownership could

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delay, defer or prevent a change of control and could adversely affect the price investors might be willing to pay in the future for shares of our common stock. Also, in the event of a sale of our business, these investors could be able to seek to receive a control premium to the exclusion of other common stockholders.

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

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

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

We may find it necessary to raise capital again sometime in the future or to consummate additional acquisitions through the issuance of equity or equity-linked securities. If we raise additional funds in the future through the issuance of equity securities or convertible debt securities, our existing stockholders will likely experience dilution of their present equity ownership position and voting rights. Depending on the number of shares issued and the terms and conditions of the issuance, new equity securities could have rights, preferences, or privileges senior to those of our common stock. Depending on the terms, common stock holders may not have approval rights with respect to such issuances.

Provisions of our charter and by-laws, in particular our "blank check" preferred stock, and in the Delaware General Corporation Law may prevent or discourage an acquisition of our Company that would benefit our stockholders.

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

In addition, as a Delaware corporation, we are subject to certain Delaware anti-takeover provisions, including the application of Section 203 of the Delaware General Corporation Law, which generally restricts our ability to engage in a business combination with any holder of 15% or more of our capital stock. Our Board of Directors could rely on Delaware law to prevent or delay an acquisition of us.

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

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002 and rules subsequently implemented by the Securities and Exchange Commission, or SEC, and The NASDAQ Stock Market, have imposed substantial requirements on public companies, including with respect to public disclosure, internal control, corporate governance practices and other matters. Our management and other personnel are devoting substantial amounts of time and resources to comply with these evolving laws, regulations and standards. Moreover, these laws, regulations and standards have significantly increased our legal and financial compliance costs and have made some activities more time-consuming and costly. In addition, we could incur significant costs to remediate any material weaknesses we identify through these efforts. We currently are evaluating and monitoring development with respect to these evolving laws, regulations and standards, and cannot predict or estimate the amount of additional costs we may incur or the timing of such costs. These new regulatory requirements may result in increased general and administrative expenses and a diversion of management's time and attention from revenue generating activities to compliance activities, which could harm our business prospects and could have a negative effect on the trading price of our common stock.

We expect our quarterly revenue and operating results to fluctuate. If we fail to meet the expectations of market analysts or investors, the market price of our common stock could decline substantially, and we could become subject to securities litigation.

Our business is seasonal and can be affected by cyclical factors outside of our control. In addition, we recognize revenue on many of our contracts once the project is substantially complete, resulting in intermittent periods of fluctuating revenue. Our quarterly revenue and operating results have fluctuated in the past and are likely to continue to vary from quarter to quarter in the future. You should not rely upon the results of one quarter as an indication of our future performance. Our revenue and operating results may fall below the expectations of market analysts or investors in some future quarter or quarters. Our failure to meet these expectations could have an adverse effect on the market price of our common stock. In addition, these fluctuations may result in volatility in our results of operations and/or have an adverse effect on the market price of our common stock. If the price of our common stock falls significantly we may be the target of securities litigation. If we become involved in this type of litigation, regardless of the outcome, we could incur substantial legal costs, management's attention could be diverted from the operation of our business, and our reputation could be damaged, which could have a material adverse effect on our business, results of operations and/or financial condition.

If securities analysts do not publish research or reports about our business or if they downgrade their evaluations of our stock, the price of our stock could decline.

The trading market for our common stock depends in part on the research and reports that industry or financial analysts publish about us or our business. If one or more of the analysts covering us downgrade their estimates or evaluations of our stock, the price of our stock could decline. If one or more of these analysts cease coverage of our Company, we could lose visibility in the market for our stock, which in turn could cause our stock price to decline.

Shares eligible for public sale after this offering could have a material adverse effect on our stock price.

Sales of a substantial number of shares of our common stock in the public market following this offering, or the perception that these sales could occur, could cause the market price of our common stock to decline. After this offering, there will be outstanding 22,723,966 shares of our common stock, assuming no exercise of the underwriters' over-allotment option. Of these shares, 18,060,495 will be, unless held by our "affiliates" as that term is defined in Rule 144 under the Securities Act, either freely

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tradable without restriction under the Securities Act of 1933, as amended, or are "restricted securities" within the meaning of Rule 144 that have been held for over six months and are saleable without restriction under Rule 144, provided that current public information about us is available. We, all of our executive officers and directors, and the convertible subordinated noteholders who convert their notes in connection with this offering, who in the aggregate hold 12,084,952 shares of our common stock as of September 21, 2009, have agreed, subject to limited exceptions, not to sell any shares of our common stock for a period of 180 days after the effective date of the registration statement, of which this prospectus is a part, without the prior written consent of Wedbush Securities.

As a new investor, you will experience immediate and substantial dilution.

The public offering price of the common stock being sold in this offering is considerably more than the net tangible book value per share of our outstanding common stock. Accordingly, investors purchasing shares of common stock in this offering will pay a price per share that substantially exceeds, on a per share basis, the value of our tangible assets after subtracting liabilities. Investors will suffer additional dilution to the extent outstanding stock options are exercised and to the extent we issue any stock or options to our employees under our stock plan.

Our management will have broad discretion in allocating the net proceeds of this offering.

We expect to use a significant portion of the net proceeds from this offering for working capital and general corporate purposes, including funding potential future acquisitions. Consequently, our management will have broad discretion in allocating the net proceeds of this offering. You may not agree with such uses and our use of the proceeds from this offering may not yield a significant return or any return at all for our stockholders. The failure by our management to apply these funds effectively could have a material adverse effect on our business, results of operation or financial condition.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements under "Prospectus Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business" and elsewhere in this prospectus may contain forward-looking statements which reflect our current views with respect to, among other things, future events and financial performance. You can identify these forward-looking statements by the use of forward-looking words such as "outlook," "believes," "expects," "potential," "continues," "may," "will," "should," "seeks," "approximately," "predicts," "project," "intends," "plans," "estimates," "anticipates," "future" or the negative version of those words or other comparable words. Any forward-looking statements contained in this prospectus are based upon our historical performance and on current plans, estimates and expectations. The inclusion of this forward-looking information should not be regarded as a representation by us, the underwriters or any other person that the future plans, estimates or expectations contemplated by us will be achieved. Such forward-looking statements are subject to various risks and uncertainties including risks that we may not be able to implement our intended business strategy. Accordingly, there are or will be important factors that could cause our actual results to differ materially from those indicated in these statements. We believe these factors include but are not limited to those described under "Risk Factors." These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this prospectus. Except as otherwise required by federal securities laws, we do not undertake any obligation to publicly update, review or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances or any other reason, after the date of this prospectus.

If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary materially from what we may have projected. Any forward-looking statements you read in this prospectus reflect our current views with respect to future events and intentions and are subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, financial condition, growth strategy and liquidity. You should specifically consider the factors identified in this prospectus that could cause actual results to differ before making an investment decision.

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USE OF PROCEEDS

We estimate that our net proceeds from our sale of 5,000,000 shares of common stock in this offering, after deducting the underwriting discount and estimated offering expenses, will be approximately $25.45 million, or $29.33 million if the underwriters' over-allotment option is exercised in full.

We intend to use the net proceeds from this offering to retire a $2.1 million note owed to a bank, and $1.1 million of the debt we assumed in connection with the AEM acquisition which is beneficially owned by Stephen Glick, one of our directors. This debt is comprised of two notes: a Promissory Note payable to Felber/Glick, LLC with a current balance of $791,667, bearing interest at 9.25% per year and required monthly principal payments of $41,667; and a Promissory Note payable to Felber/Glick, LLC with a current balance of $334,392, bearing interest at the prime rate and a required monthly principal payment of $17,560. We may also use the net proceeds from this offering to repay part or all of any amounts outstanding under our secured revolving line of credit note from Richard P. Kiphart, our chairman and largest stockholder. We entered in the revolving line on August 10, 2009 and have not yet drawn on it. It matures on February 10, 2010 and bears interest at 17% per year. We are required to pay a minimum of three months interest on any borrowing under the line and an unused funds fee of 7% per year on the unused portion of the line. If we terminate the line before its maturity, we will be required to pay a fee of $70,000, less any interest or unused line fees paid to date.

We intend to use the remaining net proceeds from this offering for working capital and general corporate purposes and support our need for surety bonds. We may also use a portion of our net proceeds from this offering to acquire or license products, technologies or businesses, but we currently have no agreements or commitments relating to material acquisitions or licenses. Accordingly, our management will have broad discretion in the application of these proceeds and investors will be relying on the judgment of our management regarding their application.

Pending their use, we plan to invest our net proceeds from this offering in short-term, interest-bearing obligations, investment-grade instruments, certificates of deposit or direct or guaranteed obligations of the U.S. government.

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PRICE RANGE OF COMMON STOCK

Our common stock traded on the OTC Bulletin Board under the symbol "LMEC" from September 22, 2006 until January 28, 2008, and under the symbol "LMEG" from January 28, 2008 until February 25, 2008. On February 25, 2008, our stock began trading on the NASDAQ Capital Market under the symbol "LIME."

The closing price of our common stock on September 21, 2009 was $7.00. The following table sets forth the quarterly high and low selling prices for our common stock as reported on the OTC Bulletin Board and NASDAQ Capital Market since January 1, 2007, adjusted for our 1-for-15 reverse stock split effected January 23, 2007, and our 1-for-7 reverse stock split effected January 28, 2008.

	Common Stock	
	High	**Low**
Year Ended December 31, 2007:		
Quarter Ended March 31, 2007	$ 7.70	$6.30
Quarter Ended June 30, 2007	$15.05	$5.81
Quarter Ended September 30, 2007	$14.21	$9.45
Quarter Ended December 31, 2007	$15.75	$5.60
Year Ended December 31, 2008:		
Quarter Ended March 31, 2008	$12.00	$6.30
Quarter Ended June 30, 2008	$10.50	$5.70
Quarter Ended September 30, 2008	$ 7.25	$5.00
Quarter Ended December 31, 2008	$ 6.31	$3.26
Year Ended December 31, 2009:		
Quarter Ended March 31, 2009	$ 5.00	$3.01
Quarter Ended June 30, 2009	$ 5.29	$3.29
July 1, 2009 through September 21, 2009	$ 8.94	$4.89

As of September 21, 2009 we had approximately 5,000 holders of record of our common stock and 17,356,461 shares of common stock outstanding.

DIVIDEND POLICY

We do not expect to pay dividends on our common stock for the foreseeable future. Instead, we anticipate that all of our earnings will be used for the operation and growth of our business. Any future determination to pay dividends on our common stock would be subject to the discretion of our Board of Directors and would depend upon various factors, including our results of operations, financial condition and liquidity requirements, restrictions that may be imposed by applicable law and our contracts, and other factors deemed relevant by our Board of Directors.

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CAPITALIZATION

The following table sets forth our consolidated cash and cash equivalents and capitalization as of June 30, 2009 on:

- an actual basis;

- a pro forma basis for conversion of the Series A-1 preferred and convertible subordinated debt and the sale of certain assets of MPG; and

- a pro forma as adjusted basis giving effect to (i) our receipt of the net proceeds from our sale of shares of common stock in this offering at an offering price of $5.50 per share, after deducting the underwriting discount and estimated offering expenses and (ii) the application of the net proceeds from this offering as described under "Use of Proceeds."

The pro forma adjustment for the conversion of our convertible subordinated notes reflects the August 10, 2009 conversion of the $3.1 million in notes held by Richard Kiphart into 487,054 shares of common stock and 367,505 shares of our common stock that will be issued upon the conversion of the remaining $1.9 million of outstanding convertible subordinated notes which will occur upon the consummation of this offering at a conversion price of $5.17 per share. The pro forma adjustments also reflect $25,000 received on the closing of the sale of certain assets of MPG and $130,000 of estimated transaction costs in connection with that sale.

You should read this table together with "Prospectus Summary Summary Historical and Pro Forma Consolidated Financial and Other Data," "Pro Forma Consolidated Financial Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations," the Lime

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Energy consolidated financial statements, the AEM consolidated financial statements, and the accompanying introductions and notes to those statements included elsewhere in this prospectus.

	Six Months Ended June 30, 2009 (unaudited)		
	Actual	Pro forma(1)	Pro forma As Adjusted(2)
Cash and cash equivalents	$ 4,673,040	$ 4,698,040	$ 26,728,924
Long-term obligations, including current portion	6,175,506	2,091,745	787,887
Stockholders' equity:(3)			
Preferred stock, $0.01 par value: 1,000,000 shares authorized, 366,943 shares issued and outstanding, actual; 1,000,000 shares authorized, no shares issued and outstanding, pro forma	3,669		
Common stock, $0.0001 par value: 50,000,000 shares authorized, 13,075,997 shares issued and outstanding, actual; 50,000,000 shares authorized, 17,708,261 shares issued and outstanding, pro forma; 50,000,000 shares authorized, 22,708,261 shares issued and outstanding, pro forma, as adjusted	1,307	1,767	2,267
Additional paid-in capital	144,867,555	150,809,013	176,259,028
Accumulated deficit	(113,096,451)	(115,058,551)	(115,058,551)
Total stockholders' equity	31,776,080	35,752,229	61,202,744
Total capitalization	$ 37,951,586	$ 37,843,974	$ 61,990,631

(1) Adjusted to reflect conversion of Series A-1 Preferred Stock and all of the convertible subordinated notes into shares of common stock and the sale of certain assets of MPG

(2) Adjusted to further reflect the issuance of 5,000,000 shares at $5.50 per share, less costs of issuance and repayment of $1.3 million in notes payable and $2.1 million on a line of credit note

(3) The outstanding share information set forth above is as of June 30, 2009 and excludes:

- 2,539,828 shares of our common stock issuable upon the exercise of options outstanding as of June 30, 2009 with a weighted average exercise price of $16.78 per share; and

- 773,442 shares of our common stock issuable upon the exercise of outstanding warrants as of June 30, 2009 with a weighted average exercise price of $9.72 per share.

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DILUTION

Purchasers of the common stock in the offering will suffer an immediate and substantial dilution in net tangible book value per share. Dilution is the amount by which the public offering price paid by purchasers of shares of our common stock exceeds the pro forma net tangible book value per share of our common stock after the offering. Pro forma net tangible book value represents the amount of our total tangible assets reduced by our total liabilities, after giving effect to the conversion of preferred stock and convertible subordinated notes. Tangible assets equal our total assets less goodwill and intangible assets. Pro forma net tangible book value per share represents our pro forma net tangible book value divided by the number of shares of common stock outstanding after giving effect to the conversion of preferred stock and convertible subordinated notes. As of June 30, 2009, our pro forma net tangible book value was $7.0 million and our pro forma net tangible book value per share was $0.40.

After giving effect to the sale of 5,000,000 shares of common stock in the offering at a public offering price of $5.50 per share, our adjusted pro forma net tangible book value as of June 30, 2009 would have been $37.3 million, or $1.64 per share. This represents an immediate increase in pro forma net tangible book value of $1.24 per share to existing stockholders and immediate dilution of $3.86 per share to new investors purchasing shares in the offering. The following table illustrates this per share dilution:

Public offering price per share		$5.50
Pro forma net tangible book value per share as of June 30, 2009	$0.40	
Increase in pro forma net tangible book value per share attributable to new investors	$1.24	
Adjusted pro forma net tangible book value per share after the offering		$1.64
Dilution in net tangible book value per share to new investors		$3.86

The information above is as of June 30, 2009 and excludes the following:

- 2,539,828 shares of our common stock issuable upon the exercise of options outstanding as of June 30, 2009 with a weighted average exercise price of $16.78 per share; and

- 773,442 shares of our common stock issuable upon the exercise of outstanding warrants as of June 30, 2009, with a weighted average exercise price of $9.72 per share.

Our adjusted pro forma net tangible book value after the offering, and the dilution to new investors in the offering, will change from the amounts shown above if the underwriters' over-allotment option is exercised.

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PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

Introduction

On June 11, 2008, we acquired all of the outstanding shares of AEM for $4.0 million in cash and 945,777 shares of our unregistered common stock, plus the assumption of $5.9 million of outstanding debt. Immediately following the acquisition, we infused $2.0 million of equity into AEM to provide for its working capital needs. We financed the acquisition and the equity infusion by drawing on an $11.0 million line of credit from our major stockholder and director, Richard P. Kiphart, and Advanced Biotherapy, Inc., an entity of which Mr. Kiphart was the majority stockholder, and which was subsequently acquired by us in March 2009. We accounted for the AEM acquisition as a purchase.

Our pro forma results of operations data present:

- our pro forma results of operations for the six months ended June 30, 2008, as if the acquisition of AEM had occurred on January 1, 2008; and

- our pro forma as adjusted results of operations for the year ended December 31, 2008, as if the acquisition of AEM had occurred on January 1, 2008.

For purposes of the Management Discussion and Analysis section, our pro forma results of operations for the six months ended June 30, 2008 and twelve months ended December 31, 2008 are shown as if the acquisition of AEM had occurred on January 1, 2008. None of the pro forma results of operations have been adjusted for this offering.

Our pro forma results are not necessarily indicative of what actually would have occurred if the acquisition had been consummated, and this offering had been completed, on the dates indicated, nor are they necessarily indicative of our future operating results.

Our pro forma consolidated statement of earnings should be read in conjunction with the Lime Energy consolidated financial statements and the AEM consolidated financial statements and their accompanying notes included elsewhere in this prospectus.

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Lime Energy Co.

Unaudited Pro Forma Condensed Consolidated Statement of Operations

For the Six Months Ended June 30, 2008

	Lime Energy Co. Historical	Applied Energy Management	Pro forma Adjustments	Pro forma
Revenue	$ 8,624,744	$ 10,136,672	$	$ 18,761,416
Cost of sales	7,688,012	8,401,213		16,089,225
Gross Profit	936,732	1,735,459		2,672,191
Selling, general and administrative	6,821,421	4,205,968		11,027,389
Amortization of intangibles	381,666		881,825(a)	1,263,491
Operating Loss	(6,266,355)	(2,470,509)	(881,825)	(9,618,689)
Other Income (Expense)				
Interest income	57,125			57,125
Interest expense	(918,102)	(222,079)	(491,912)(b)	(1,632,093)
Total other expense	(860,977)	(222,079)	(491,912)	(1,574,968)
Net loss from continuing operations	(7,127,332)	(2,692,588)	(1,373,737)	(11,193,657)
Loss from discountined operations	(1,636,630)			(1,636,630)
Net loss	$ (8,763,962)	$ (2,692,588)	$ (1,373,737)	$ (12,830,287)
Preferred dividends				
Net Loss Available to Stockholders	$ (8,763,962)	$ (2,692,588)	$ (1,373,737)	$ (12,830,287)
Basic and diluted loss per common share from continuing operations	$ (0.91)	$	$	$ (1.29)
Discontinued operations	(0.21)			(0.19)
Basic and Diluted Net Loss Per Common Share	$ (1.12)	$	$	$ (1.48)
Weighted Average Common Shares Outstanding	7,838,010		853,200(c)	8,691,210

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Lime Energy Co.

Unaudited Pro Forma Condensed Consolidated Statement of Operations

For the Year Ended December 31, 2008

	Lime Energy Co. Historical	Applied Energy Management	Pro forma adjustments	Pro forma
Revenue	$ 54,975,084	$ 10,136,672	$	$ 65,111,756
Cost of sales	43,281,049	8,401,213		51,682,262
Gross Profit	11,694,035	1,735,459		13,429,494
Selling, general and administrative	18,100,309	4,205,968		22,306,277
Amortization of intangibles	1,568,107		561,397(d)	2,129,504
Operating Loss	(7,974,381)	(2,470,509)	(561,397)	(11,006,287)
Other Income (Expense)				
Interest income	87,084			87,084
Interest expense	(2,668,420)	(222,079)	(589,818)(e)	(3,480,317)
Total other expense	(2,581,336)	(222,079)	(589,818)	(3,393,233)
Net loss from continuing operations	(10,555,717)	(2,692,588)	(1,151,215)	(14,399,520)
Loss from discountined operations	(2,479,809)			(2,479,809)
Net loss	$ (13,035,526)	$ (2,692,588)	$ (1,151,215)	$ (16,879,329)
Preferred dividends	(288,014)			(288,014)
Net Loss Available to Stockholders	$ (13,323,540)	$ (2,692,588)	$ (1,151,215)	$ (17,167,343)
Basic and diluted loss per common share from continuing operations	$ (1.29)	$	$	$ (1.66)
Discontinued operations	$ (0.30)	$	$	$ (0.28)
Basic and Diluted Net Loss Per Common Share	$ (1.59)	$	$	$ (1.94)
Weighted Average Common Shares Outstanding	8,381,697		453,766(c)	8,835,463

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NOTES TO UNAUDITED PRO FORMA

CONDENSED COMBINED STATEMENTS OF OPERATIONS

(a)
To record six months of amortization expense related to the AEM's identifiable intangible assets assuming the business combination occurred as of January 1, 2008.

(b)
To record six months of interest on borrowings under the Company's line of credit used to fund the cash portion of the acquisition of $4.0 million and a $2 million equity infusion into AEM.

(c)
Represents shares of Lime Energy Co. common stock issued as consideration to the sellers of AEM.

(d)
To record an additional 5 months of amortization expense related to the AEM's identifiable intangible assets assuming the business combination occurred as of January 1, 2008.

(e)
To record an additional 5 months of interest on borrowings under the Company's line of credit used to fund the cash portion of the acquisition of $4.0 million and a $2 million equity infusion into AEM.

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SELECTED HISTORICAL CONSOLIDATED FINANCIAL AND OTHER DATA

The selected financial data set forth below as of December 31, 2008 and 2007 and for each of the three years ended December 31, 2008, 2007 and 2006 is derived from the Lime Energy audited financial statements included with this prospectus. The Lime Energy selected financial data set forth below as of December 31, 2006, 2005 and 2004 and for each of the two years ended December 31, 2005 and 2004 have been derived from Lime Energy audited financial statements that are not included with this prospectus. Lime Energy's audited financial statements included in this prospectus for the years ended December 31, 2008, 2007 and 2006 have been revised to reflect Lime Energy's Energy Technology subsidiary as a discontinued operation, which the Company sold in August 2009. The Lime Energy selected financial data for the six-month periods ended June 30, 2008 and 2009 have been derived from our unaudited financial statements; however, such information reflects all adjustments (consisting solely of normal recurring adjustments), which, in the opinion of management, are necessary for a fair statement of results for the interim periods. The selected financial data for the six-month periods ended June 30, 2008 have been revised to reflect Lime Energy's Energy Technology subsidiary as a discontinued operation.

On June 11, 2008, we acquired all of the outstanding shares of AEM for $4.0 million in cash and 945,777 shares of our unregistered common stock, plus the assumption of $5.9 million of outstanding debt. Immediately following the acquisition, we infused $2.0 million of equity into AEM to provide for its working capital needs. We financed the acquisition and the equity infusion by drawing on an $11.0 million line of credit from our major stockholder and director, Richard P. Kiphart, and Advanced Biotherapy, Inc., an entity of which Mr. Kiphart was the majority stockholder, and which was subsequently acquired by us in March 2009.

In December 2006 we discontinued the marketing of what had been our original core product, the EnergySaver. In June 2006, through an acquisition, we launched our Energy Efficiency Services business. Our Energy Efficiency Services segment has grown rapidly through acquisitions and organic growth, and in 2008 this segment represented 100% of our consolidated revenue.

Effective January 1, 2006, we adopted SFAS 123(R). As a result of adopting SFAS 123(R), $4.8 million, $3.7 million and $3.8 million of stock-based compensation expense was included in the results for the years ended December 31, 2006, 2007 and 2008, respectively. Prior to January 1, 2006, no expense was recognized related to our stock options because the exercise prices of the stock options were set at the stock's fair market value on the date the options were granted in accordance with the method of accounting prescribed by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and the associated interpretations using the intrinsic method.

The historical results presented below are not necessarily indicative of the results to be expected for any future period. The data set forth below should be read in conjunction with "Management's

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Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements, including the notes thereto, included elsewhere in this prospectus.

	Year Ended December 31,					Six Months Ended June 30,	
	2004(1)	2005(1)	2006	2007	2008	2008 (unaudited)	2009 (unaudited)
Statement of Operations Data:							
Revenue	$ 733,630	$ 2,738,887	$ 5,488,693	$ 16,383,779	$ 54,975,084	$ 8,624,744	$ 29,519,945
Cost of sales	862,366	2,564,022	5,095,566	12,755,928	43,281,049	7,688,012	23,872,726
Gross profit	(128,736)	174,865	393,127	3,627,851	11,694,035	936,732	5,647,219
Selling, general and administrative	4,234,239	3,997,542	9,082,411	9,259,455	18,100,309	6,821,421	10,781,982
Amortization of intangibles			625,625	1,486,509	1,568,107	381,666	658,201
Impairment loss		242,830	1,183,525				
Operating loss	(4,362,975)	(4,065,507)	(10,498,434)	(7,118,113)	(7,974,381)	(6,266,355)	(5,792,964)
Interest expense, net	(626,049)	(531,662)	(3,061,856)	(668,069)	(2,581,336)	(860,977)	(839,875)
Loss from continuing operations	(4,989,024)	(4,597,169)	(13,560,290)	(7,786,182)	(10,555,717)	(7,127,332)	(6,632,839)
Loss from discontinued operations	(170,338)	(2,275,569)	(2,887,224)	(7,766,546)	(2,479,809)	(1,636,630)	(1,029,223)
Net loss	$ (5,159,362)	$ (6,872,738)	$ (16,447,514)	$ (15,552,728)	$ (13,035,526)	$ (8,763,962)	$ (7,662,062)
Preferred stock dividends	(4,639,259)	(1,851,345)	(24,347,725)		(288,014)		(1,202,185)
Net loss available to common stockholders	$ (9,798,621)	$ (8,724,083)	$ (40,795,239)	$ (15,552,728)	$ (13,323,540)	$ (8,763,962)	$ (8,864,247)
Basic and diluted loss per common share from continuing operations(2)	$ (25.33)	$ (14.15)	$ (9.86)	$ (1.03)	$ (1.29)	$ (0.91)	$ (0.65)
Basic and diluted loss per common share(2)	$ (25.78)	$ (19.14)	$ (10.61)	$ (2.06)	$ (1.59)	$ (1.12)	$ (0.74)
Weighted average common shares outstanding(2)	380,013	455,809	3,844,087	7,541,960	8,381,697	7,838,010	12,054,940
Balance Sheet Data:							
Cash and cash equivalents	1,789,808	4,229,150	4,663,618	4,780,701	3,733,540	474,372	4,673,040
Working capital (deficiency)	263,304	646,483	3,606,419	5,825,753	7,035,745	(9,128,809)	6,327,608
Total assets	6,479,320	17,098,974	25,396,865	25,943,832	62,888,199	44,320,928	57,844,825
Long-term debt, including current portion	1,230,353	4,980,032	567,091	3,269,634	5,904,018	4,443,182	6,175,506
Total stockholders' equity	1,780,274	4,377,637	18,184,756	13,869,246	28,960,572	14,376,192	31,776,080

(1) Effective January 1, 2006, we adopted SFAS 123(R) which requires companies to record stock compensation expense for equity-based awards granted, including stock options and restricted stock unit grants, over the service period of the equity-based award based on the fair value of the award at the date of grant. We recognized $4.8 million, $3.7 million and $3.8 million of stock compensation expense during 2006, 2007 and 2008, respectively which is included in our cost of sales and SG&A expense.

(2) During 2006 we effected a 1-for-15 reverse stock split. During 2008 we effected a 1-for-7 reverse stock split. The weighted average common shares outstanding and the earnings per share values have been adjusted in all periods as if the reverse stock splits had occurred prior to January 1, 2004.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that are based on management's current expectation, estimates, and projections about our business and operations. Our actual results may differ materially from those currently anticipated and expressed in such forward-looking statements as a result of numerous factors, including those we discuss under "Risk Factors" and elsewhere in this prospectus.

We have included a discussion of our acquisition of AEM in June 2008 in certain portions of the following discussion and analysis section in order to provide some detail on the impact that this transaction has had and that we expect that this transaction will have on our results of operations and liquidity and capital resource requirements. The unaudited pro forma financial and operational information included herein for the twelve months ended December 31, 2008 and the six months ended June 30, 2009 have been presented as if the AEM acquisition occurred on January 1, 2008, while the pro forma results for the twelve months ended December 31, 2007 are presented as if the AEM acquisition occurred on January 1, 2007. Such unaudited pro forma information is presented for illustrative purposes only and is not necessarily indicative of what our actual financial or operational results would have been had the AEM acquisition been consummated on such dates.

You should read the following discussion together with the "Pro Forma Consolidated Financial Information," the "Selected Historical Consolidated Financial and other Data" and the accompanying introduction and notes, as well as the Lime Energy consolidated financial statements, the AEM consolidated financial statements and their accompanying notes, included elsewhere in this prospectus.

Overview

General

We are a provider of integrated energy engineering, consulting and implementation solutions specializing in improving the energy efficiency of our clients' facilities, thereby reducing their operating costs and carbon emissions. We perform energy efficiency engineering and consulting as well as the development and implementation of energy efficient lighting, mechanical, electrical, water, weatherization, and renewable energy solutions.

We serve a wide range of commercial and industrial and public sector clients. Our commercial and industrial clients include many Fortune 500 companies for which we provide our energy efficiency solutions directly, as well as utilities for which we manage energy efficiency portfolio projects. Our public sector clients include government agencies and educational institutions, which we serve both through our relationships with ESCOs and directly. ESCOs are awarded project contracts with the public sector as prime contractors, and we provide energy efficiency expertise to develop and implement tailored solutions under these contracts.

Our revenue increased by $7.8 million, or 13.7%, to $65.1 million during 2008 from $57.3 million during 2007 on a pro forma basis reflecting our revenues combined with those of Applied Energy Management, Inc., which we acquired on June 11, 2008. Our revenue for the first six months of 2009 has grown by 57.3% to $29.5 million from pro forma revenue of $18.8 million during the same period in 2008. We have invested significant capital and resources to build our business infrastructure to ensure that we have the operational platform to support continued future growth.

The services we provide include:

- *Engineering and Consulting:* We apply our engineering expertise to analyze each client's energy consumption and operational needs and develop customized energy efficiency solutions. Our energy engineering and consulting services include project development services, energy

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management planning, energy bill analysis, building energy audits and e-commissioning. We also provide design review and analysis of new construction projects to maximize energy efficiency and sustainability, project management of energy-related construction, and processing and procurement of incentive and rebate applications.

Implementation: We provide a range of energy efficiency and conservation services, including energy efficient lighting upgrade services, mechanical and electrical conservation services, water conservation services, building envelope weatherization services and renewable energy solutions. Our objective is to improve the quality of our clients' physical space, maximize their operational savings, capitalize on rebates available to them and reduce their maintenance costs. We take into consideration factors such as infrastructure requirements, best available technologies, building environmental conditions, hours of operation, energy costs, available utility rebates and tax incentives, and installation, operation and maintenance costs of various efficiency alternatives.

We also recently contracted to sell our Energy Technology segment through which we offered our patented line of HVAC and lighting controllers under the eMAC and uMAC brand names. The eMAC technology provides remote monitoring, management and control of commercial rooftop HVAC units. This technology allows our clients to reduce energy consumption, thereby lowering operating expenses, and helps identify and prevent potential equipment failures, thereby reducing maintenance expenses and downtime. Our uMAC technology is a version of the eMAC that remotely controls the operation of a facility's lights via wireless communications. In early 2009 we decided to sell this division, which has incurred significant losses for the last couple of years, to allow us to focus on our faster growing Energy Services business. We came to agreement with a buyer in early August 2009 and closed on the sale on August 10, 2009. This segment has been reported as discontinued operations in the accompanying financial statements.

Revenue and Expense Components

Revenue

We generate the majority of our revenue from the sale of our services and the products that we purchase and resell to our clients.

Revenue includes charges for our engineering, installation and/or project management services and the materials we purchase and resell to our customers. The substantial majority of our revenue is derived from fixed-price contracts, although we occasionally bill on a time-and-materials basis. Under fixed-price contracts, we bill our clients for each project once the project is completed or throughout the project as specified in the contract. Under time-and-materials arrangements, we bill our clients on an hourly basis with material costs and other reimbursable expenses passed through and recognized as revenue. The time it takes to complete our projects ranges from a couple of days for a small project to four to eight months for some of our larger projects.

Our revenues are somewhat seasonal with the strongest sales occurring in the second half of the year.

Revenue Recognition

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

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We recognize revenue under either the completed contract method, for short term contracts, or the percentage of completion method for multi-month projects. Under the completed contract method, revenue is recognized once the project is substantially complete, resulting in some variability in revenue. Under the percentage of completion method we recognize revenue throughout the term of the project based on the percentage of costs incurred. Under both methods of revenue recognition, any anticipated losses on contracts are charged to operations as soon as they are determinable.

Revenue Concentration

During 2008, Honeywell International (an ESCO) and URS Corporation accounted for approximately 14% and 10% of our consolidated revenue, respectively. In 2007 Washington Mutual, Inc. accounted for approximately 10% of our consolidated revenue. AEM has relationships with large ESCOs that have historically provided repeat revenue and have represented a significant percentage of revenue in any given period. On a pro forma basis, Honeywell and DMJM Harris, Inc. accounted for approximately 34% and 13%, respectively, of our 2008 revenue. We expect large ESCO projects to continue to be a significant component of our total revenue. As a result, we may experience more client concentration in future periods than we had in the past.

Gross Profit

Gross profit equals our revenue less cost of sales. Our cost of sales consists primarily of materials, our internal labor and the cost of subcontracted labor.

Gross profit is a key metric that we use to examine our performance. Gross profit depends in part on the volume and mix of products and services that we sell during any given period. A portion of our cost of sales, such as the cost of certain supervisory personnel, is relatively fixed. Accordingly, an increase in the volume of sales will generally result in an increase to our gross profit margins since these fixed expenses are not expected to increase proportionately with sales.

Selling, General and Administrative Expense

Selling, general and administrative expense includes the following components:

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

Amortization of Intangibles

When we acquire other companies we are required to allocate the purchase price between identifiable tangible and intangible assets, with any remaining value allocated to goodwill. The value allocated to intangible assets is amortized over the estimated life of the related asset. The acquisitions of MPG, Parke, Kapadia, AEM, Texas Energy Products and Preferred Lighting resulted in approximately $12.9 million of intangible assets that are being amortized over periods ranging from 1 month to 20 years. Approximately $2.7 million of these assets have been determined to have indefinite lives and are not being amortized. We recorded total amortization expense of $0.5 million, $1.2 million, $2.0 million, and $2.1 million in each of the years ended December 31, 2005, 2006, 2007 and 2008, respectively. Based on our current intangible assets, we expect to record amortization expense of $1,365,355 during 2009 and $468,339 during 2010.

Impairment Loss

Impairment loss represents charges related to the impairment of goodwill and long-lived assets. In 2007 our impairment loss consisted of a $4.2 million charge related to the impairment of MPG's goodwill due to lower than expected eMAC sales. During 2006, we determined that our EnergySaver product was completely impaired and recorded an impairment charge of $1.2 million to reduce the carrying value of the long-lived assets related to this business to zero. In 2005 we recorded an impairment loss of $243,000 because the carrying value of our Great Lakes Controlled Energy subsidiary was greater than the expected sale price of this business which implied that the goodwill was impaired.

Interest Expense, Net

Net interest expense consists of interest expense net of interest income. Net interest expense represents the interest costs associated with our subordinated convertible term notes (including amortization of the related debt discount and issuance costs), our lines of credit, the mortgage on our headquarters building, the Felber/Glick term notes and various vehicle loans. Also included in net interest expense for 2006 are the costs and expenses associated with working capital indebtedness and two convertible term loans, including amortization of the related debt discount and deferred financing costs, both of which were retired in full in June 2006. We expect that our net interest expense will decline after our outstanding debt has been reduced with the proceeds of this offering.

Interest income includes earnings on our invested cash balances and amortization of the discount on our long-term receivables.

Preferred Stock Dividends

Preferred stock dividends represent the dividend expense associated with our convertible preferred stock. Our dividend expense in 2004, 2005 and 2006 also included charges for non-cash deemed dividends. These deemed dividends were associated with the beneficial conversion value of newly issued shares of preferred stock and with required changes in the conversion price of the preferred stock.

General Business Trends and Recent Developments

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

Recent Establishment and Expansion of Energy Efficiency Services Business

In 2006 we established our Energy Efficiency Services business through the acquisitions of Parke and Kapadia. Our acquisition of AEM in June 2008 as well as additional acquisitions and the opening of new offices have significantly added to this segment. Our Energy Efficiency Services business has grown to the point that it represented 100% of our consolidated revenue in 2008. Certain characteristics of this business, such as seasonality, margins and working capital requirements, are fundamentally different than those of our previous business; therefore, we believe our historical results will not be indicative of our future performance. As an example, in 2007 and 2008 the Energy Efficiency Services business was somewhat seasonal with a disproportionate amount of revenue

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recognized in the second half of the year. This seasonality is likely to result in greater fluctuations in our revenue, earnings and working capital requirements throughout the year than we had experienced prior to the establishment of our Energy Efficiency Services business. Because certain of our expenses are relatively fixed, fluctuations in our revenues are also likely to cause fluctuations in our profit.

Sale of Energy Technology Division

In May 2005 we added the eMAC and uMAC line of HVAC and lighting controllers through the acquisition of MPG. To date, this product line has never reached the level of sales necessary to achieve profitability. In March 2009 we made the decision to exit the business and retained an investment bank to assist us in locating potential buyers. On August 10, 2009 we signed an agreement to sell certain assets of this business, including the rights to the eMAC and uMAC technology. The results of operations from the Energy Technology segment have been reported as discontinued operations in the accompanying financial statements. During the quarter ended June 30, 2009, in anticipation of the sale, we reduced the carrying value of these assets to their expected fair value, incurring an impairment loss of $503,407.

AEM Transaction

On June 11, 2008, we acquired AEM. AEM provides energy engineering and consulting services and energy efficiency services similar to our existing energy efficiency lighting solutions. In addition, it provides mechanical and electrical conservation services, water conservation services and renewable energy solutions primarily for government and municipal facilities, all markets that we had not previously participated in. The majority of AEM's clients are ESCOs and it operates primarily on the East Coast.

Because of the significance of this acquisition, our historical operating results are not expected to be indicative of our future operating results. In particular, we expect our revenue and expenses to increase substantially as a result of this acquisition. The following table reflects our historical operating results for selected income statement line items for the year ended December 31, 2008, and the same line items on a pro forma basis assuming the AEM acquisition and the related financing transactions occurred effective January 1, 2008:

	Year Ended December 31, 2008	
	Actual	**Pro forma (unaudited)**
Revenue	$ 54,975,084	$ 65,111,756
Cost of sales	43,281,049	51,682,262
Gross profit	11,694,035	13,429,494
Selling, general and administrative expense	18,100,309	22,306,277
Amortization of intangibles	1,568,107	2,129,504
Operating loss	(7,974,381)	(11,006,287)
Other expense	(2,581,336)	(3,393,233)
Loss from continuing operations	(10,555,717)	(14,399,520)
Income (loss) from discontinued operations	(2,479,809)	(2,479,809)
Net loss	$(13,035,526)	$(16,879,329)

As a result of our acquisition of AEM, our pro forma revenue and gross profit were higher than our actual revenue and gross profit. Also as a result of our acquisition of AEM, our pro forma SG&A expense was higher than our actual SG&A expense. The higher pro forma SG&A expense more than offset the higher gross profit, resulting in a pro forma operating loss that was greater than our actual

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operating loss. Due to the interest expense that we incurred in connection with our acquisition of AEM, our pro forma net interest expense was higher than our actual net interest expense. As a result of our pro forma operating loss being greater than our actual operating loss and our pro forma net interest expense being higher than our actual net interest expense, our pro forma net loss was greater than our actual net loss.

The acquisition of AEM may reduce the seasonality of our consolidated revenue because AEM derives the majority of its revenue from long-term government contracts that are generally not seasonal in nature. However, because a few large projects are often responsible for a significant portion of AEM's annual revenue, the level of activity, initial project delays or gaps between projects can have a significant impact on the revenue and earnings of a particular period.

As explained above, we borrowed $4.0 million on our line of credit to fund the cash portion of the AEM acquisition price and we made a $2.0 million equity infusion into AEM immediately following the acquisition for working capital requirements. The additional interest expense associated with this use of our line of credit has been included in our pro forma results for 2008.

Private Placement

On November 13, 2008 we entered into subscription agreements with 15 investors to sell 1,787,893 units, each comprised of one share of our common stock and a warrant to purchase an additional quarter share of common stock. These investors included Richard P. Kiphart, David R. Asplund, Daniel W. Parke, Gregory T. Barnum, David Valentine and Jeffrey R. Mistarz, all of whom are our directors and/or officers. The sale price was $3.51 per unit, which was equal to 75% of the volume-weighted average price of our common stock for the ten days prior to closing. The warrants allow holders to purchase a share of common stock for $4.10 per share, which was the closing price of our common stock on the day prior to the closing, and the warrants are exercisable any time after May 13, 2009 and before November 13, 2011. The total gross proceeds raised in the private placement were $6,275,500. The private placement closed in two tranches: tranche A, comprised of unaffiliated investors, closed on November 13, 2008 and raised $3,000,500; and tranche B comprised of affiliated investors closed on January 30, 2009 and raised $3,275,000. Proceeds from the Private Placement were used for general corporate purposes.

Recapitalization

On November 14, 2008, we entered into a Preferred Stock Purchase Agreement with Richard P. Kiphart, under which we sold Mr. Kiphart 358,710 shares of our newly created Series A-1 preferred stock in exchange for his agreement to cancel a revolving promissory note we issued in the then outstanding amount of $14,707,104 (the "Recapitalization"). The note bore interest at 17% per annum and would have matured on March 31, 2009. Each outstanding share of Series A-1 preferred stock is entitled to cumulative quarterly dividends at a rate of (i) 15% per annum of its stated value, which is $41.00 per share, on or prior to March 31, 2009 (9% payable in cash and 6% payable in additional shares of Series A-1 preferred stock); and (ii) 17% per annum of its stated value at any time on or after April 1, 2009 (9% payable in cash and 8% payable in additional shares of Series A-1 preferred stock). The Series A-1 preferred stock was convertible into shares of common stock on a 10-for-1 basis, subject to adjustment. Mr. Kiphart converted his shares of preferred stock into 3,777,705 shares of common stock on August 10, 2009.

ADVB Acquisition

On November 18, 2008, we entered into a Stock Purchase Agreement with controlling stockholders of Advanced Biotherapy, Inc. ("ADVB"), pursuant to which we agreed to acquire 90.8% of the outstanding capital stock of ADVB at $0.008625 per share in exchange for their shares of our common

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stock. Through a short-form merger, we offered the remaining ADVB stockholders the same consideration for their common stock. On March 3, 2009, we completed the merger and acquired ADVB. ADVB's assets included approximately $7.4 million of cash and an $800,000 note receivable. ADVB's assets also included a revolving credit note due from us, which had an outstanding balance of approximately $52,000 as of the closing. We have cancelled the revolving credit note. We did not continue to operate ADVB's prior business and consider the transaction to have been in substance an equity offering in which we issued shares of our common stock in return for approximately $8.2 million in cash and notes receivable.

Outlook

We have focused over the last three years on establishing the business infrastructure and talent base to support continued revenue growth and profitability over the longer term rather than achieving immediate profitability. We believe that our end-markets in the commercial and industrial and public sectors will provide us with an opportunity to achieve average annual organic revenue growth over the next three to five years of over 30%. As we achieve greater revenue scale, by carefully managing our key supplier relationships and leveraging our purchasing power in addition to maintaining price discipline given our positioning in the marketplace and current revenue mix, we anticipate gross margins over the longer term in the range of 21% to 23%.

We have also developed our business by making hires of key talent and establishing an infrastructure platform and national office network to enable us to achieve our revenue targets with relatively limited increases in SG&A expenditures as compared to revenue growth required going forward. We currently target reducing SG&A as a percent of revenue to the range of 11% to 14% over the next three to five years, which we believe is a sustainable SG&A expense ratio for the business over the longer term and reflects our expectations with respect to our ability to achieve additional operating leverage.

The information set forth above represents certain current expectations of our business over time based on our business model and anticipated capital following this offering. We caution you that these expectations may not materialize and are not indicative of the actual results we have or will achieve. Many factors and future developments may cause our actual results to differ materially and significantly from the information set forth above. See "Risk Factors" and "Special Note Regarding Forward-Looking Statements."

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amount of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of our financial statements. Actual results may differ from these estimates under different assumptions or conditions. Critical accounting policies are defined as those that involve significant judgments and uncertainties, and potentially result in materially different results under different assumptions and conditions. We believe that our most critical accounting policies are limited to those described below. For a detailed discussion on the application of these and other accounting policies, see Note 3 in the notes to our consolidated financial statements.

Use of Estimates

Preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions

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affecting the reported amounts of assets, liabilities, revenues and expenses and related contingent liabilities. On an on-going basis, we evaluate our estimates, including those related to revenues, bad debts, warranty accrual, income taxes and contingencies and litigation. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

Revenue and Profit Recognition

We recognize our revenue when all four of the following criteria are met: (i) persuasive evidence has been received that an arrangement exists; (ii) delivery of the products and/or services has occurred; (iii) the selling price is fixed or determinable; and (iv) collectability is reasonably assured. In addition, we follow the provisions of the SEC's Staff Accounting Bulletin No. 104,