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

Form 10-Q

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

For the quarterly period ended June 30, 2015

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

For the transition period from _____ to _____

Commission file number 001-16265

LIME ENERGY CO.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

36-4197337

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

3 Convery Blvd., Suite 600, Woodbridge, New Jersey 07095

(Address of principal executive offices, including zip code)

(732) 791-5380

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer Smaller reporting company

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

Yes No

9,564,148 shares of the registrant's common stock, \$.0001 par value per share, were outstanding as of August 13, 2015.

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Cautionary Note Regarding Forward-Looking Statements

Our disclosure and analysis in this report, including Management’s Discussion and Analysis of Financial Condition and Results of Operations, contains “forward-looking statements” within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Statements that are not purely historical may be forward-looking. You can identify these forward-looking statements by the use of words such as “anticipate,” “believe,” “estimate,” “expect,” “hope,” “intend,” “may,” “project,” “plan,” “goal,” “target,” “should,” and similar expressions, including when used in the negative.

Forward-looking statements are subject to various risks and uncertainties. Accordingly, there are or will be important factors that could cause actual results to differ materially from those indicated in these statements including, but not limited to, those described in our Annual Report on Form 10-K filed with the Securities and Exchange Commission (the “SEC”) under “Part I, Item 1A — Risk Factors.” The following are some of the factors that could affect our financial performance or could cause actual results to differ materially from estimates contained in or underlying the forward-looking statements:

- our business model has changed significantly since our inception in response to a constantly changing and 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 our inception and may not achieve or sustain profitability in the future;
- we may not be able to raise additional capital to fund future operating losses;
- the SEC is investigating us and the results of that investigation could have a material adverse effect on our business, results of operations and financial condition;
- our customers and investors may lose confidence in us because of our restatement;
- 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;
- we recently acquired EnerPath International Holding Company, and we may not realize the expected benefits of the acquisition should we encounter integration difficulties or other challenges;
- we depend upon a limited number of utility contracts to generate substantially all of our revenues; and
- 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.

All forward-looking statements in this report should be considered in the context of the risks and other factors described above and as detailed from time to time in the Company’s SEC filings. Any forward-looking statements speak only as of the date the statement is made and, 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. It is not possible to identify all of the risks, uncertainties and other factors that may affect future results. In light of these risks and uncertainties, the forward-looking events and circumstances discussed in this report may not occur and actual results could differ materially from those anticipated or implied in the forward-looking statements. Accordingly, users of this report are cautioned not to place undue reliance on the forward-looking statements.

PART I - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS (UNAUDITED)

Lime Energy Co.
Condensed Consolidated Balance Sheets
(in thousands)

	<u>June 30,</u> <u>2015</u> <u>(unaudited)</u>	<u>December 31,</u> <u>2014</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 5,902	\$ 5,473
Restricted cash	1,800	500
Accounts receivable, less allowance for doubtful accounts of \$1,676 and \$1,794, respectively	20,691	11,820
Inventories	2,037	176
Costs and estimated earnings in excess of billings on uncompleted contracts	7,798	7,407
Prepaid expenses and other	717	619
Current assets of discontinued operations	573	613
Total Current Assets	39,518	26,608
Net Property and Equipment	1,755	1,470
Long-Term Receivables	1,254	710
Intangible Assets, net	5,286	—
Deferred Financing Costs, net	—	22
Goodwill	8,173	6,009
Total Assets	\$ 55,986	\$ 34,819

Lime Energy Co.
Condensed Consolidated Balance Sheets
(in thousands, except share data)

	<u>June 30,</u> <u>2015</u> <u>(unaudited)</u>	<u>December 31,</u> <u>2014</u>
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	\$ 19,705	\$ 13,341
Accrued expenses	2,587	1,245
Billings in excess of costs and estimated earnings on uncompleted contracts	1,133	705
Customer deposits	679	512
Other current liabilities	11	11
Current portion of long-term liabilities	10	—
Current liabilities of discontinued operations	<u>1,085</u>	<u>806</u>
Total Current Liabilities	25,210	16,620
Long-Term Debt - Related Party	7,710	—
Derivative Liability - Related Party	<u>7,729</u>	<u>—</u>
Total Liabilities	<u>40,649</u>	<u>16,620</u>
Commitments and Contingencies		
Contingently redeemable Series C Preferred stock, \$0.01 par value: 10,000 shares authorized, issued and outstanding (includes accrued dividends)	10,031	9,633
Stockholders' Equity		
Common stock, \$.0001 par value; 50,000,000 shares authorized 9,564,148 and 9,460,090 issued and outstanding as of June 30, 2015 and December 31, 2014, respectively	1	1
Additional paid-in capital	209,361	208,916
Accumulated deficit	<u>(204,056)</u>	<u>(200,351)</u>
Total Stockholders' Equity	<u>5,306</u>	<u>8,566</u>
	<u>\$ 55,986</u>	<u>\$ 34,819</u>

See accompanying notes to condensed consolidated financial statements

Lime Energy Co.
Condensed Consolidated Statements of Operations
(in thousands, unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenue	\$ 31,950	\$ 13,590	\$ 50,249	\$ 25,871
Cost of sales	21,078	9,176	33,878	17,727
Gross Profit	10,872	4,414	16,371	8,144
Selling, general and administrative	9,414	4,666	15,220	9,576
Acquisition costs	244	—	937	—
Amortization of intangibles	278	—	309	—
Operating income (loss)	936	(252)	(95)	(1,432)
Other (Expense) Income				
Interest income	37	23	71	39
Interest expense - Related Party \$430 and \$483 thousand for the three and six months ended June 30, 2015, respectively.	(445)	—	(504)	—
Extinguishment of debt - Related Party	—	—	(1,420)	—
Loss from change in derivative liability - Related Party	(1,280)	—	(2,085)	—
Total other (expense) income	(1,688)	23	(3,938)	39
Loss from continuing operations before income taxes	(752)	(229)	(4,033)	(1,393)
Income tax (expense) benefit	(75)	—	1,169	—
Loss from continuing operations	(827)	(229)	(2,864)	(1,393)
Discontinued Operations:				
(Loss) Income from operation of discontinued business	(158)	55	(221)	52
Net loss	(985)	(174)	(3,085)	(1,341)
Preferred stock dividends	(312)	(486)	(620)	(1,953)
Net loss available to common stockholders	\$ (1,297)	\$ (660)	\$ (3,705)	\$ (3,294)
Basic and diluted (loss) earnings per common share from				
Continuing operations	\$ (0.12)	\$ (0.19)	\$ (0.37)	\$ (0.89)
Discontinued operations	(0.02)	0.01	(0.02)	0.01
Basic and diluted loss per common share	\$ (0.14)	\$ (0.18)	\$ (0.39)	\$ (0.88)
Weighted-average common shares outstanding	9,548	3,730	9,526	3,728

See accompanying notes to condensed consolidated financial statements

Lime Energy Co.
Condensed Consolidated Statement of Stockholders' Equity
(in thousands, unaudited)

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>			
Balance, December 31, 2014	9,460	\$ 1	\$ 208,916	\$ (200,351)	\$ 8,566
Dividends on Series C Preferred Stock	—	—	—	(620)	(620)
Shares issued for benefit plans	12	—	—	—	—
Share based compensation	92	—	445	—	445
Net loss	—	—	—	(3,085)	(3,085)
Balance, June 30, 2015	<u>9,564</u>	<u>\$ 1</u>	<u>\$ 209,361</u>	<u>\$ (204,056)</u>	<u>\$ 5,306</u>

See accompanying notes to condensed consolidated financial statements.

Lime Energy Co.
Condensed Consolidated Statements of Cash Flows
(in thousands, unaudited)

Six Months Ended June 30,	2015	2014
Cash Flows From Operating Activities		
Net Loss	\$ (3,085)	\$ (1,341)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Provision for bad debt	324	368
Share-based compensation	445	191
Depreciation and amortization	707	369
Amortization of deferred financing costs	21	—
Change in derivative liability - Related Party	2,085	—
Loss on extinguishment of debt - Related Party	1,420	—
Deferred income tax benefit	(1,246)	—
Interest on Sub Notes added to principal - Related Party	400	—
Amortization of original issue discount - Related Party	49	—
Establishment of restricted funds to release Letter of Credit	(1,300)	—
Changes in assets and liabilities:		
Accounts receivable	(3,266)	(360)
Inventories	444	—
Costs and estimated earnings in excess of billings on uncompleted contracts	(391)	342
Prepaid expenses and other	97	(232)
Assets of discontinued operations	40	1,297
Accounts payable	2,383	(2,372)
Accrued expenses	584	(1,649)
Billings in excess of costs and estimated earnings on uncompleted contracts	370	(1,292)
Customer deposits and other current liabilities	101	(1,664)
Liabilities of discontinued operations	279	(1,810)
Net cash provided by (used in) operating activities	461	(8,153)
Cash Flows From Investing Activities		
Acquisition of EnerPath	(11,000)	—
Purchases of property and equipment	(441)	(274)
Net cash used in investing activities	(11,441)	(274)
Cash Flows From Financing Activities		
Proceeds from issuance of convertible notes - Related Party	11,750	—
Proceeds from the issuance of preferred stock	—	2,000
Costs related to preferred stock issuances	—	(9)
Payments on vehicle financing	(4)	—
Deferred financing costs	(337)	—
Net cash provided by financing activities	11,409	1,991
Net Increase (Decrease) in Cash and Cash Equivalents	429	(6,436)
Cash and Cash Equivalents, at beginning of period	5,473	6,940
Cash and Cash Equivalents, at end of period	\$ 5,902	\$ 504

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	Six Months Ended June 30,	
	2015	2014
Supplemental Disclosure of Cash Flow Information:		
Preferred dividends satisfied through issuance of preferred stock:	\$ —	\$ 943
Cash paid during the period for interest: Continuing operations	\$ 34	\$ —

See accompanying notes to condensed consolidated financial statements

Notes to Unaudited Condensed Consolidated Financial Statements

Note 1 — Basis of Presentation

The accompanying unaudited condensed consolidated financial statements (the “Financial Statements”) of Lime Energy Co. (“Lime Energy” and, together with its subsidiaries, the “Company”, “we”, “us” or “our”) have been prepared in accordance with Rule 10-01 of Regulation S-X promulgated by the Securities and Exchange Commission (the “SEC”) and, therefore, do not include all information and footnotes necessary for a fair presentation of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America (“GAAP”). In our opinion, however, the Financial Statements contain all adjustments, consisting only of normal recurring adjustments, necessary to present fairly our financial position, results of operations and cash flows as of and for the interim periods.

The results of operations for the three- and six-month periods ended June 30, 2015 and 2014 are not necessarily indicative of the results to be expected for the full year.

As more fully described in Note 6—“Subordinated Convertible Term Notes” below, on March 24, 2015 (the “Note Issuance Date”), the Company issued to Bison Capital Partners IV, L.P. (“Bison”) a subordinated convertible note due March 24, 2020 in the principal amount of approximately \$11.7 million (the “Note”). As set forth in the Note, beginning with the quarter ending March 31, 2016, the Company must meet certain rolling twelve-month Adjusted EBITDA targets, as defined in the Note, or otherwise be in breach of its covenants under the Note. Any breach of covenant would create an event of default, which could cause acceleration of the Note’s maturity. The Adjusted EBITDA target for the twelve months ending March 31, 2016 is \$6.3 million. Achievement of this target will depend on many factors including the amount, timing, and profitability of future revenues and the integration efforts related to the recent acquisition of EnerPath International Holding Company (“EnerPath”), among other things. In the event the Company does not meet the covenant and the Note holders accelerate payment of the Note and interest, the Company will likely be required to refinance the Note with other debt or equity or sell assets. There can be no assurance that the Company will be able to do so on favorable terms or at all.

The December 31, 2014 balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. For further information, refer to the audited financial statements and the related footnotes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014.

Starting on March 24, 2015, the date of the acquisition of EnerPath, the results of EnerPath’s operations have been consolidated with our results. For a more complete discussion of the EnerPath acquisition, refer to Note 5—“Acquisition of EnerPath” below.

Note 2 - Share-Based Compensation

The Compensation Committee of the Board of Directors of the Company (the “Board”) grants stock options and restricted stock under the Company’s 2008 Long Term Incentive Plan (as amended, the “2008 Plan”). The 2008 Plan provides that up to 407,143 shares of our common stock could be delivered under the Plan to certain of our employees, consultants, and non-employee directors. In addition, the 2008 Plan provides for an additional number of shares of our common stock to be reserved for issuance under the plan on January 1st of each succeeding year, beginning January 1, 2010, in an amount equal to 35,715 shares.

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As of June 30, 2015, there were 745,117 shares of common stock available for issuance under the 2008 Plan. We granted 92,413 shares of restricted stock and options to purchase 546,100 shares under the 2008 Plan during the first half of 2015. Options to purchase 644,740 shares were outstanding under the 2008 Plan as of June 30, 2015.

All of the options have been granted at a price equal to or greater than the market price of the Company's stock on the date of grant. Substantially all stock option grants outstanding under the 2008 Plan vest ratably over three years and expire 10 years from the date of grant. In addition to the 2008 Plan, the Company gave employees the right to purchase shares at a discount to the market price under its employee stock purchase plan. On March 14, 2014, our Board approved the Lime Energy Co. 2014 Employee Stock Purchase Plan (the "2014 ESPP") which provides for successive two six-month offering periods commencing on July 1, 2014 and January 1, 2015, respectively.

On April 24, 2015, our Board approved the Lime Energy Co. 2015 Employee Stock Purchase Plan (the "2015 ESPP") which was subsequently approved by the stockholders of the Company holding a majority of the voting power outstanding as of April 24, 2015, acting by written consent. The 2015 ESPP allows employees to purchase the Company's common stock at a discount using payroll deductions and entitles employees in the United States to receive special tax treatment provided by the Internal Revenue Code of 1986, as amended. The 2015 ESPP, which became effective on June 18, 2015 provides for the issuance of up to 100,000 shares of common stock in successive two six-month offering periods commencing on July 1, 2015 and January 1, 2016, respectively. As of June 30, 2015, approximately 267 persons were eligible to participate in the 2015 ESPP.

In addition to the 2008 Plan, the 2014 ESPP, and the 2015 ESPP, the Board grants restricted stock to non-employee directors under the Company's 2010 Non-Employee Directors Stock Plan (the "Directors' Plan"). Restricted stock granted to date under the Directors' Plan for Board service vest 50% upon grant and 50% on the first to occur of the first anniversary of the grant date, if the director is then still serving on the Board, or the director's death, disability, or retirement. Restricted stock granted under the Directors' Plan for committee service vest 50% upon grant and 50% on the first to occur of the first anniversary of the grant date, if the director is then still serving on the committee, or the director's death, disability, or retirement.

The Company accounts for employee share-based awards in accordance with Accounting Standards Codification ("ASC") 718, which requires companies to measure the cost of employee service received in exchange for a share-based award based on the fair value of the award at the date of grant, with expense recognized over the requisite service period (generally equal to the vesting period of the grant).

The following table summarizes the Company's total share-based compensation expense (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Stock options	\$ 110	\$ 6	\$ 161	\$ 13
Restricted stock	95	54	253	166
Employee Stock Purchase Plan	15	5	31	12
	<u>\$ 220</u>	<u>\$ 65</u>	<u>\$ 445</u>	<u>\$ 191</u>

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The compensation expense to be recognized in future periods with respect to the Company’s employee options and restricted stock is as follows (in thousands):

<u>As of June 30, 2015</u>	<u>Unrecognized Compensation Expense</u>	<u>Weighted Average Remaining Life (in months)</u>
Stock options	\$ 472	10.2
Restricted stock	<u>\$ 145</u>	<u>5.3</u>

Note 3 — Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, “Revenue From Contracts With Customers.” ASU 2014-09 supersedes nearly all existing revenue recognition under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration the Company expects to be entitled to for those goods or services using a defined five-step process. More judgment and estimates may be required to achieve this principle than under existing U.S. GAAP. ASU 2014-09 is effective for annual periods beginning after December 15, 2017, including interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients or (ii) a retrospective approach with the cumulative effect upon initial adoption recognized at the date of adoption which includes additional footnote disclosures. The Company is currently evaluating the impact of the adoption of ASU 2014-09 on the Company’s consolidated financial statements and has not yet determined the method of adoption.

In August 2014, the FASB amended the FASB ASC and amended Subtopic 205-40, “Presentation of Financial Statements — Going Concern.” This amendment prescribes that an entity’s management should evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity’s ability to continue as a going concern within one year after the date that the financial statements are issued. The amendments will become effective for the Company’s annual and interim reporting periods beginning January 1, 2017. The Company is evaluating the impact of this amendment on its consolidated financial statements; however, the Company does not expect that the adoption of this standard will have a material impact on the Company’s consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, “Simplifying the Presentation of Debt Issuance Costs.” ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The FASB issued the ASU to simplify the presentation of debt issuance costs, and to align with other existing FASB guidance. ASU 2015-03 is effective for annual periods beginning after December 15, 2015, and interim periods within those annual periods. The adoption of this standard is not expected to have a significant impact on the Company’s consolidated financial statements.

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Note 4 — Earnings Per Share

The Company computes income or loss per share under ASC 260 “Earnings Per Share,” which requires presentation of two amounts: basic and diluted loss per common share. Basic loss per common share is computed by dividing income or loss available to common stockholders by the number of weighted average common shares outstanding, and includes all common stock issued. Diluted earnings include all common stock equivalents. The Company has not included the outstanding options or warrants as common stock equivalents in the computation of diluted loss per share for the three and six months ended June 30, 2015 and 2014, because the effect would be anti-dilutive.

The following table sets forth the weighted average shares issuable upon exercise of outstanding options:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Weighted average shares issuable upon exercise of outstanding options	636,073	363,423	515,700	354,411
Weighted average shares issuable upon exercise of outstanding warrants	—	1,798,384	—	1,745,283
Total	<u>636,073</u>	<u>2,161,807</u>	<u>515,700</u>	<u>2,099,694</u>

Note 5 — Acquisition of EnerPath

On March 24, 2015, the Company acquired EnerPath, a California-based provider of software solutions and program administration for utility energy efficiency programs. The consideration paid in connection with the EnerPath acquisition was approximately \$11 million in cash with \$1.0 million held in escrow, subject to adjustment as set forth in the Agreement and Plan of Merger by and among the Company, EIHC Merger Sub, Inc., a wholly-owned subsidiary of the Company, EnerPath, and the EnerPath stockholders. The purchase price adjustment indemnification escrow of \$250 thousand was released on June 25, 2015, together with the \$75 thousand escrow that had been set aside to cover expenses of the stockholders’ representative. An amount equal to approximately \$629 thousand remains in escrow to cover any post-closing indemnification.

The approximate fair values of the assets acquired and liabilities assumed related to the acquisition are based on preliminary estimates and assumptions. These preliminary estimates and assumptions could change significantly during the purchase price measurement period as we finalize the valuations of the assets acquired and liabilities assumed. Such changes could result in material variances between the Company’s future financial fair values recorded and expenses associated with these items, including variances in the estimated purchase price.

The following table summarizes the preliminary adjusted fair values of the assets acquired and liabilities assumed at the date of the closing of the acquisition (in thousands).

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Current assets	\$ 8,932
Property and equipment	153
Other assets	41
Intangible assets - finite life	5,595
Goodwill	2,164
Total assets acquired	16,885
Current Liabilities assumed	(4,639)
Deferred income tax liability	(1,246)
Net assets acquired	<u>\$ 11,000</u>

The preliminary estimate of intangible assets acquired from EnerPath, the acquired intangible asset categories, fair value and average amortization periods are as follows (in thousands):

	Fair Value	Average Amortization Method/Period	Estimated Annual Amortization Expense
Customer relationships	\$ 1,505	Cash flow/7 years	\$ 215
Enerworks System Software	3,265	4 years	816
Trade name	825	3 years	275
	<u>\$ 5,595</u>		<u>\$ 1,306</u>

The following unaudited pro forma information represents the Company's results of operations as if the acquisition had occurred on January 1, 2014 (in thousands):

Six-months ended June 30,	2015	2014
Revenue	<u>\$ 60,661</u>	<u>\$ 45,254</u>
Loss from continuing operations	\$ (2,384)	\$ (3,228)
(Loss) Income from operation of discontinued business	(221)	52
Net loss	\$ (2,605)	\$ (3,176)
Preferred stock dividends	(620)	(1,953)
Net loss available to common stockholders	<u>\$ (3,225)</u>	<u>\$ (5,129)</u>
Basic and Diluted (loss) earnings Per Common Share From		
Continuing operations	\$ (0.32)	\$ (1.39)
Discontinued operations	(0.02)	0.01
Basic and Diluted Loss Per Common Share	<u>\$ (0.34)</u>	<u>\$ (1.38)</u>
Weighted Average Common Shares Outstanding	9,526	3,728

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The pro forma results have been prepared for informational purposes only and include adjustments to amortize acquired intangible assets with finite life, eliminate acquisition-related expenses, and reflect additional interest expense on debt used to fund the acquisition. These pro forma results do not purport to be indicative of the results of operations that would have occurred had the purchase been made as of the beginning of the periods presented or of the results of operations that may occur in the future.

Acquisition costs on the Unaudited Condensed Consolidated Statements of Operations are comprised of acquisition expenses, including legal, accounting, and banking expenses.

Note 6 — Subordinated Convertible Term Notes

2015 Convertible Debt Financing to Fund the EnerPath Acquisition — Related Party

To finance the purchase price for the acquisition of EnerPath (described in Note 5—“Acquisition of EnerPath” above), the Company entered into a Note Purchase Agreement, dated March 24, 2015 (the “Note Purchase Agreement”) with Bison, pursuant to which the Company issued the Note. The proceeds from the sale of the Note were used to finance the EnerPath acquisition and to pay \$0.9 million of fees and expenses incurred in connection therewith, including fees and expenses incurred in connection with the Note Purchase Agreement, which were capitalized and included as a discount to long-term debt. As of the date the Note was issued, Bison owned 10,000 shares of the Company’s Series C Convertible Preferred Stock (the “Series C Preferred Stock”), which was, as of that date, convertible into approximately 30% of the Company’s common stock, making Bison the Company’s single largest stockholder. Two members of the Company’s Board, Andreas Hildebrand and Peter Macdonald, are partners of an affiliate of Bison. Mr. Hildebrand and Mr. Macdonald recused themselves from the Board’s consideration of the Note issuance. The Note is guaranteed by each subsidiary of the Company, including EnerPath and each of EnerPath’s subsidiaries, and is secured by a lien on all of the assets of the Company and each of its subsidiaries. The Company may not elect to prepay the Note.

Based upon the initial conversion price of the Note (\$3.16), all or any portion of the principal amount of the Note, plus, subject to the terms of the Note, any accrued but unpaid interest, but not more than the principal amount of the Note, may, at the election of the Note holder, be converted into 3,718,354 shares of common stock after March 24, 2018 or the occurrence of a change of control of the Company, whichever occurs first. However, the Note may not convert into more than 19.99% of the outstanding common stock until the stockholders’ approval of the removal of this cap becomes effective. This removal of the cap will become effective 20 calendar days after the mailing to the Company’s stockholders of an information statement relating to the Note issuance and the EnerPath acquisition. The conversion price is subject to anti-dilution adjustments in connection with stock splits and similar occurrences and certain other events set forth in the Note, including future issuances of common stock or common stock equivalents at effective prices lower than the then-current conversion price. Due to the terms of the anti-dilution provision, the Company separated this conversion feature from the debt instrument and accounts for it as a derivative liability that must be carried at its estimated fair value with changes in fair value reflected in the Company’s Consolidated Statements of Operations. Upon issuance, the initial estimate of fair value was established as both a derivative liability and as a discount on the Note. That discount, absent the Note amendment described below, would have been amortized to interest expense over the term of the Note. The Company determined the estimated fair value of the derivative liability to be \$5.6 million and \$7.7 million as of the Note issuance date and June 30, 2015, respectively.

The fair value of the derivative liability was determined using a binomial option pricing model with the following assumptions: a risk-free rate of 1.62%; expected volatility of 77%; a maturity date of March 24,

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2020; probability factors regarding the Company's ability to meet the EBITDA covenants in the Note; and a 0% probability that a future financing transaction would reduce the conversion price.

The Note was amended on March 31, 2015 (the "Note Amendment"), primarily to change certain interest and financial covenant terms. Under the Note Amendment, the Company may, at its option, pay in cash semi-annually interest on the outstanding principal amount at a rate of 10.5% per annum; or allow interest to accrue and be added to the principal amount at a rate of 12.5%. Upon the occurrence of an event of default under the terms of the Note, the interest rate increases by 2.0% per annum until the Note is redeemed or the event of default is cured.

The Company is subject to certain financial, affirmative and negative covenants, including a minimum EBITDA covenant beginning as of March 31, 2016, as set forth in the Note. Pursuant to the Note Amendment, if certain trailing EBITDA targets are not met as of June 30, 2015, September 30, 2015 or December 31, 2015, an additional \$1.0 million of interest for each such quarter in which such EBITDA target is not met, becomes due at the earlier of maturity, redemption or acceleration. As of June 30, 2015, the Company was in compliance with all applicable covenants under the amended Note. The Note, as amended, also limits the original principal amount of the Note that Bison may convert to common stock under the conversion provisions of the Note.

Pursuant to prevailing accounting guidance, the Note Amendment, for accounting purposes, was treated as an extinguishment of the original Note and the issuance of a new note, with the conversion derivative left intact and unchanged. Upon extinguishment, the net carrying amount of the extinguished Note (including its principal amount and related discounts and deferred financing costs) of \$5.8 million was written off and the fair value of the amended Note was established, resulting in a net charge to earnings in the statement of operations of \$1.4 million. The fair value of the amended Note was determined by reference to its probability weighted average expected cash flows discounted at an estimated market interest rate for a hypothetical similar non-convertible note issued by the Company. The March 31, 2015 carrying value of \$7.3 million will incur interest charges at an effective interest rate required to result in the ultimate amount of cash flows needed to service the Note. As of March 31, 2015, that effective interest rate was estimated at 25.4% but may change depending on actual cash requirements to service the Note pursuant to the various interest payment alternatives described above.

2014 Notes

On August 4, 2014, the Company entered into a Subscription Agreement (the "Subscription Agreement") with a group of investors including Mr. Richard Kiphart (collectively with the other investors, the "Note Holders"). Pursuant to the terms of the Subscription Agreement, the Note Holders lent the Company \$1.0 million under Subordinated Secured Convertible Pay-In-Kind Notes (the "2014 Notes"). The 2014 Notes had a term of ten years and accrued interest at the rate of 12.5% per year, payable semi-annually in cash or additional 2014 Notes, at the Company's election.

The Note Holders were entitled to convert the 2014 Notes at any time, at their election, into shares of the Company's common stock at a conversion price calculated as provided in the 2014 Notes.

On December 23, 2014, in connection with the issuance of Series C Preferred Stock discussed in Note 9—"Sale of Series C Preferred Stock" below, the 2014 Notes were converted into 213,500 shares of common stock.

Note 7 — Conversion of Subordinated Debt and Sale of Series A Preferred Stock

On September 23, 2013, the Company entered into a Preferred Stock and Warrant Purchase Agreement (the “Series A Purchase Agreement”) with a group of investors including two of our directors, Mr. Christopher Capps and Mr. Richard Kiphart (collectively with the other investors, the “Investors”), pursuant to which the Investors purchased 926,223 shares of the Company’s Series A Preferred Stock (the “Series A Preferred Stock”) at a price of \$10.00 per share of Series A Preferred Stock. The purchase price was paid with (a) \$2.5 million in cash and (b) the exchange of approximately \$6.8 million (principal amount and accrued interest) of the Company’s Subordinated Secured Convertible Pay-In-Kind Notes (the “Notes”), representing all of the outstanding Notes at the time.

The shares of Series A Preferred Stock were entitled to an accruing dividend of 12.5% per annum of their original issue price (subject to adjustment for stock splits, combinations and similar recapitalizations), payable semi-annually in arrears.

The shares of Series A Preferred Stock were convertible at the election of the holder of such shares, into shares of the Company’s common stock, and the Company could redeem all or a portion of the Series A Preferred Stock at its option subject to certain legal restrictions.

On December 23, 2014, in connection with the issuance of Series C Preferred Stock (discussed in Note 9—“Sale of Series C Preferred Stock”), all outstanding shares of Series A Preferred Stock were converted to 3,084,261 shares of common stock, and the Series A Warrants that had been issued in connection with the entry into the Series A Purchase Agreement were cancelled.

Note 8 —Sale of Series B Preferred Stock

On December 30, 2013, the Company entered into a Preferred Stock and Warrant Purchase Agreement (the “Series B Purchase Agreement”) with Mr. Kiphart and a group of other investors (collectively, the “Series B Investors”), pursuant to which the Series B Investors purchased 400,000 shares of the Company’s Series B Preferred Stock (the “Series B Preferred Stock”) at a price of \$10.00 per share of Series B Preferred Stock.

On January 29, 2014, the Company entered into a Series B Purchase Agreement with Greener Capital Partners Fund II, L.P. (“Greener Capital”), pursuant to which Greener Capital purchased an aggregate of 200,000 shares of the Company’s Series B Preferred Stock at a price of \$10.00 per share of Series B Preferred Stock. This transaction closed on February 4, 2014.

The shares of the Series B Preferred Stock were entitled to an accruing dividend of 12.5% per annum of their original issue price (subject to adjustment for stock splits, combinations and similar recapitalizations), payable semi-annually in arrears.

The shares of Series B Preferred Stock were convertible, at any time following the approval of such conversion by the Company’s stockholders, and the Company could at any time elect to redeem all or a portion of the Series B Preferred Stock unless prohibited by provisions of the Delaware General Corporation Law governing distributions to stockholders.

On December 23, 2014, in connection with the issuance of Series C Preferred Stock (discussed in Note 9—“Sale of Series C Preferred Stock”), all shares of Series B Preferred Stock were converted to 2,383,437

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shares of the Company's common stock, and the Series B Warrants that had been issued in connection with the entry into the Series B Purchase Agreement were cancelled.

Note 9 —Sale of Series C Preferred Stock

On December 23, 2014, the Company entered into a Preferred Stock Purchase Agreement with Bison, pursuant to which Bison purchased 10,000 shares of the Company's Series C Preferred Stock at a price of \$1,000 per share of Series C Preferred Stock.

The shares of Series C Preferred Stock are entitled to an accruing dividend of 12.5% per annum of their base amount (subject to adjustments for stock splits, combinations and similar recapitalizations), payable every six months. The base amount is adjusted on each dividend payment date for the unpaid dividends accrued. The Company accrued dividends of \$312 thousand and \$620 thousand during the three and six months ended June 30, 2015, respectively.

The shares of Series C Preferred Stock may be converted, at any time, at the option of the holder, into shares of the Company's common stock at a conversion price which was initially equal to \$2.40 per share (the "Series C Conversion Price"); however, the Series C Preferred Stock may not convert into more than 19.99% of the outstanding common stock prior to the effective date of the stockholders' approval of the removal of this cap. The Series C Conversion Price shall be proportionately adjusted for stock splits, combinations and similar recapitalizations, and shall be adjusted for future issuances of common stock. Upon conversion, all accrued, undeclared and unpaid dividends on the shares of Series C Preferred Stock so converted shall be cancelled.

At any time after the fourth anniversary of the closing date, the Company shall have the right to redeem all, but not less than all, of the shares of Series C Preferred Stock for an amount equal to the original issue price of the shares plus all accrued but unpaid dividends, with such redemption to occur 30 days after the Company's giving notice thereof to the holder(s) of the shares of Series C Preferred Stock. During such 30-day period, the holders of the Series C Preferred Stock may convert the Series C Preferred Stock to common stock in lieu of receiving the redemption payment. At any time after the fourth anniversary of the closing date, a holder of Series C Preferred Stock shall have the right to require the Company to redeem all or a portion of its Series C Preferred Stock for an amount equal to the original issue price of the shares plus all accrued but unpaid dividends. In the event the Company fails to make the required redemption payment by the date fixed for such payment, the dividend rate will increase to 15% per annum and increase by an additional 1% per annum each quarter until paid.

In connection with the issuance of the Series C Preferred Stock, the Company, Bison, Mr. Kiphart and The John Thomas Hurvis Revocable Trust entered into a Shareholder and Investor Rights Agreement dated as of December 23, 2014 (the "Shareholder Agreement"). Pursuant to the terms of the Shareholder Agreement, in the event the Company proposes to issue new securities (subject to certain exceptions), the Company must allow Bison to purchase a proportion of the new securities equal to the number of shares of common stock beneficially owned by Bison divided by the total number of shares of common stock then outstanding, on a fully-diluted basis.

The Shareholder Agreement also provides Bison with operational consent rights and director appointment rights that apply so long as Bison holds at least five percent of the total voting power of the Company. The stockholders of the Company party to the Shareholder Agreement have agreed to vote in favor of Bison's director appointees. The Shareholder Agreement entitles Bison to appoint one director to the Company's Compensation Committee and any new board committee that is established, other than the Audit Committee

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or the Governance and Nominating Committee. It also entitles Bison to receive certain financial information. Bison may not, subject to certain exceptions in the Shareholder Agreement, acquire additional shares of common stock or seek to influence the management of the Company without the Company's consent. Such restrictions will no longer apply upon certain changes of control of the Company.

If, on the fifth anniversary of the closing date or any succeeding anniversary of such date, ten percent of the average daily trading volume of common stock is less than the number of shares of common stock beneficially owned by Bison divided by 240, then Bison may require the Company to initiate a sale process. Subject to the terms of the Shareholder Agreement, the stockholders of the Company party to the Shareholder Agreement have agreed to vote in favor of and otherwise support such a sale. If such a sale is not consummated within nine months, Bison shall have the right to require the Company to purchase, subject to the terms of the Shareholder Agreement, all or any portion of its Series C Preferred Stock or common stock into which such Series C Preferred Stock has converted, for a per share price generally equal to the average closing price of the Company's common stock for the 60 trading days immediately preceding giving notice of exercise of such right.

The Company incurred costs of approximately \$617 thousand to issue the Series C Preferred Stock. These costs were recorded net of the proceeds of the Series C Preferred Stock. The Series C Preferred Stock is classified outside of permanent equity as the rights of redemption and the ability to initiate a sale are not solely within the control of the Company.

The Company intends to use the cash proceeds from the sale of the Series C Preferred Stock for general corporate purposes.

On March 24, 2015, the Company amended and restated the Shareholder Agreement (as amended and restated, the "Amended and Restated Shareholder Agreement") and that certain Registration Rights Agreement dated December 23, 2014 by and among the Company, Bison and certain other stockholders of the Company (as amended and restated, the "Amended and Restated Registration Rights Agreement"). Pursuant to the terms of the Amended and Restated Shareholder Agreement, in the event the Company proposes to issue new securities (subject to certain exceptions), the Company must allow Bison to purchase a proportion of the new securities equal to the number of shares of common stock beneficially owned by Bison (including the shares of common stock into which the Note could convert) divided by the total number of shares of common stock outstanding on a fully-diluted basis. The operational consent rights and director appointment rights held by Bison under the Shareholder Agreement remain in the Amended and Restated Shareholder Agreement; provided, however, that, in the event Bison is no longer entitled to designate at least one director under the terms of the Series C Preferred Stock, Bison will be entitled under the Amended and Restated Shareholder Agreement to designate that number of directors that is consistent with its ownership of common stock (including shares of common stock that are convertible from the Series C Preferred Stock and the Note, assuming the Note was immediately convertible) if it holds at least five percent of the common stock (computed in the same fashion).

Pursuant to the Amended and Restated Registration Rights Agreement, Bison is entitled to certain registration rights in connection with the common stock into which its shares of Series C Preferred Stock and the Note may convert, including the right to demand the registration of such shares at any time after December 23, 2015 and rights to include such shares in other registration statements filed by the Company. Additionally, Mr. Kiphart and the John Thomas Hurvis Revocable Trust are entitled to include certain of their shares of common stock in a registration statement filed by the Company. The Company has agreed to indemnify the other parties to the Amended and Restated Registration Rights Agreement in connection with any claims related to their sale of securities under a registration statement, subject to certain exceptions.

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Note 10 — Letter of Credit Agreement

On August 1, 2014, the Company entered into a Letter of Credit Agreement with Mr. Kiphart (the “LOC Agreement”), which replaced a previous letter of credit agreement that the Company had entered into with Mr. Kiphart on December 7, 2012. Pursuant to the LOC Agreement, Mr. Kiphart agreed to cause, at the Company’s request, the issuance of one or more letters of credit (collectively, the “Kiphart Letter of Credit”) for the benefit of a surety, up to an aggregate amount of \$1.3 million. The Kiphart Letter of Credit is being used to guarantee certain obligations of the Company in connection with its performance under a contract between the Company and a utility customer. Mr. Kiphart’s obligation to cause the issuance of, or leave in place, the Kiphart Letter of Credit will terminate on December 31, 2019. The Company agreed to indemnify Mr. Kiphart for any liability in connection with any payment or disbursement made under the Kiphart Letter of Credit. The Company also agreed to pay for or reimburse any fees and out-of-pocket expenses incurred by Mr. Kiphart in connection with the Kiphart Letter of Credit. All amounts due to Mr. Kiphart under the LOC Agreement are payable by the Company within ten business days of the Company’s receipt of a written demand thereof from Mr. Kiphart.

In addition, the Company agreed to pay Mr. Kiphart simple interest on the aggregate amount of the Kiphart Letter of Credit at a rate of six percent per annum. The Company accrued interest of \$14 thousand and \$34 thousand during the three and six months ended June 30, 2015, respectively.

As consideration for Mr. Kiphart’s obligations under the LOC Agreement, the Company issued to Mr. Kiphart warrants to purchase 50,000 shares of the Company’s common stock. The value of the warrants, which was determined to be \$100 thousand, was capitalized as deferred financing costs. In connection with the issuance of Series C Preferred Stock discussed in Note 9—“Sale of Series C Preferred Stock,” the warrants were forfeited and deferred financing costs of \$100 thousand were recorded to interest expense.

In May 2015, the Company replaced the Kiphart Letter of Credit with restricted funds of the Company.

Note 11— Preferred Stock Dividends

The components of dividend expense are as follows:

<u>Six months ended June 30,</u>	<u>2015</u>	<u>2014</u>
Series A dividend	\$ —	\$ 594
Series B dividend	—	349
Series C dividend	620	—
Deemed dividend on Series A	—	178
Deemed dividend on Series B	—	832
Total dividend expense	\$ 620	\$ 1,953

During the first half of 2015, the Company accrued dividends of \$620 thousand on our Series C Preferred Stock. During the first half of 2014, the Company accrued dividends of \$594 thousand on our Series A Preferred Stock and \$349 thousand on our Series B Preferred Stock.

In recording the sale of the Series B Preferred Stock, we allocated the value of the proceeds to the sale of the shares and the warrants based on their relative fair values. In doing so, we determined that the Series B Preferred Stock contained a beneficial conversion feature valued at \$480 thousand. The value of the

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beneficial conversion feature, along with the value of the warrants, which was determined to be \$352 thousand, were both considered to be non-cash deemed dividends and were recorded to dividend expense.

From the sale of the Series B Preferred Stock, an anti-dilution provision of the Series A Preferred Stock required us to adjust the conversion price of the Series A Preferred Stock resulting in a \$178 thousand non-cash deemed dividend. The deemed dividend was calculated as the increase in the value of the shares into which the Series A Preferred Stock would be convertible resulting from the adjustment to the conversion price, based on the market price of our common stock on the date of the adjustment.

Note 12 — Legal Matters

The Company is from time to time involved in legal proceedings, which are subject to many uncertainties and the outcomes of which are not within its control and may not be known for prolonged periods of time. The Company is currently party to the following material legal proceedings:

Jeffrey Satterfield, individually and on behalf of all others similarly situated, v. Lime Energy Co., John O'Rourke and Jeffrey Mistarz, United States District Court for the Northern District of Illinois, Case No. 1:12-cv-05704. This is a securities class action suit. An Order of Preliminary Approval of a settlement was filed on January 28, 2014. The parties agreed to settlement terms and an Order of Final Approval and Final Judgment was entered by the court on June 4, 2014. As part of the settlement, the Company agreed to pay \$2.5 million into a settlement fund, the entire amount of which was paid by insurance.

Kuberski v. Lime Energy Co. et al., United States District Court for the Northern District of Illinois, Case No. 12-cv-7993. As previously disclosed, this putative shareholder derivative action alleged that several of the Company's former officers and present and former directors breached their fiduciary duties to the Company from May 14, 2008 through the date of the action. On April 1, 2015, the parties entered a Stipulation and Agreement of Settlement, and a hearing on the proposed settlement was scheduled for July 7, 2015. On May 5, 2015, the Court entered a preliminary order approving the Stipulation and Agreement of Settlement. On July 7, 2015, the Court entered a final Order approving the settlement and dismissed the case with prejudice. The settlement amount was fully covered by the Company's insurance policy.

SEC Investigation. The Company remains subject to an investigation the SEC launched in 2012 with respect to the Company's revenue recognition practices and financial reporting. The Company has responded to the SEC's various document requests and the SEC has conducted interviews of certain of the Company's employees. In July 2015, the SEC asked for additional documentation. The Company is in the process of responding to the latest document request and intends to continue to cooperate with the SEC staff.

Dressler v. Lime Energy, United States District Court for the District of New Jersey, Case 3:14-cv-07060-FLW-DEA. This purported "whistleblower" case was filed on November 10, 2014, alleging illegal retaliation by the Company for the plaintiff's alleged disclosure of activity she believed violated the Securities Exchange Act of 1934, as amended. The plaintiff alleges that she made repeated disclosures to various individuals employed by the Company that certain accounting practices were improper and could lead to a restatement of financial statements. The plaintiff filed her complaint pursuant to the Sarbanes-Oxley Act of 2002 (18 U.S.C. §1514A), and the Dodd-Frank Wall Street Reform and Consumer Protection Act (15 U.S.C. §78u-6, et seq.). This case has been accepted for coverage under the Lime Executive Protection Portfolio Policy. On January 20, 2015, the Company filed a motion to dismiss for failure of the plaintiff to meet the definition of a "whistleblower" under the Dodd-Frank Act. The plaintiff opposed the motion and, on February 24, 2015, the Company filed its reply brief in support of the motion to dismiss. The parties are currently waiting for the court to rule on the motion.

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Note 13 — Discontinued Operations

On February 28, 2013, the Company sold the majority of its public sector business to PowerSecure. In addition, during the third quarter of 2013, the Board authorized management to sell or dispose of GESPC, its contract with the Army Corp of Engineers under the Federal Renewal and Renovation program, and the regional service business located in Bethlehem, Pennsylvania. These businesses, which the Company exited in 2013, and the Asset Development business, which the Company shut down at the end of 2012, have all been reported as discontinued operations in the accompanying financial statements.

The revenue and operating profit (loss) related to discontinued operations were as follows (in thousands):

	<u>Three Months</u> <u>Ended June 30,</u>		<u>Six Months</u> <u>Ended June 30,</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Revenue	\$ —	\$ 43	\$ 10	\$ 183
Operating profit (loss)	<u>\$ (158)</u>	<u>\$ 55</u>	<u>\$ (221)</u>	<u>\$ 52</u>

The assets and liabilities related to discontinued operations were as follows (in thousands):

	<u>June 30,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
Accounts receivable	\$ 365	\$ 404
Costs and estimated earnings in excess of billings on uncompleted contracts	208	209
Total current assets	<u>573</u>	<u>613</u>
Total Assets	<u>\$ 573</u>	<u>\$ 613</u>
Accounts payable	\$ 811	\$ 672
Accrued expenses	252	108
Billings in excess of costs and estimated earnings on uncompleted contracts	3	8
Customer deposits	18	18
Total current liabilities	<u>1,084</u>	<u>806</u>
Total Liabilities	<u>\$ 1,084</u>	<u>\$ 806</u>

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Note 14 — Business Segment Information

All of the Company's operations, including EnerPath's operations, are included in one reportable segment, the Energy Efficiency segment.

Note 15 — Other Equity Issuances

During the first half of 2015, as compensation for Board service, the Company granted 92,413 shares of restricted stock to non-employee directors pursuant to the Directors' Plan. Restricted stock granted to date under the Directors' Plan for Board service vest 50% upon grant and 50% on the first to occur of the first anniversary of the grant date, if the director is then still serving on the Board, or the director's death, disability, or retirement. Restricted stock granted under the Directors' Plan for committee service vest 50% upon grant and 50% on the first to occur of the first anniversary of the grant date, if the director is then still serving on the committee, or the director's death, disability, or retirement.

Note 16 — Subsequent Event

On July 24, 2015, the Company entered into a Loan and Security Agreement (the "Loan Agreement") with Heritage Bank of Commerce (the "Bank"), whereby the Bank agreed to make available to the Company a secured credit facility (the "Credit Facility") consisting of a \$6.0 million revolving line of credit which the Company may draw upon from time to time, subject to the calculation and limitation of a borrowing base, for working capital and other general corporate purposes.

The line of credit, which matures on July 24, 2017, bears variable interest at the prime rate plus 1.00% and is collateralized by certain assets of the Company and its subsidiaries including their respective accounts receivable, certain deposit and investment accounts, and intellectual property. As additional incentive to the Bank to enter into the Credit Facility and make available to the Company funds thereunder, the Company has issued to the Bank a warrant to purchase shares of the Company's common stock up to \$60 thousand in the aggregate.

The Loan Agreement requires the Company to comply with a number of conditions precedent that must be satisfied prior to any borrowing. In addition, the Company will be required to remain compliant with certain customary representations and warranties and a number of affirmative and negative covenants. The occurrence of an event of default under the Loan Agreement may cause amounts outstanding during the event of default to accrue interest at a rate of 3.00% above the interest rate that would otherwise be applicable.

Item 2.

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

You should read the following discussion regarding the Company along with our financial statements and related notes included in this Quarterly Report on Form 10-Q (this "Report"). This Report, including the following discussion, contains forward-looking statements that are subject to risks, uncertainties and assumptions. Our actual results, performance and achievements in 2015 and beyond may differ materially from those expressed in, or implied by, these forward-looking statements. See "Cautionary Note Regarding Forward-Looking Statements."

Overview

Lime Energy Co. ("Lime Energy" and, together with its subsidiaries, the "Company", "we", "us" or "our") provides utilities with the comprehensive customer relationship services they need in order to satisfy their shareholders, regulators and customers. Working on behalf of utilities and with their business customers, Lime Energy delivers energy services aimed at customer satisfaction, grid reliability and cost-effective environmental compliance. Our innovative contracting methods and software platform enables the integrated delivery of energy efficiency, demand response, renewable energy, customer engagement and behavioral change. We believe that the next century of energy infrastructure investment will focus on the customer side of the meter, and Lime Energy is helping utilities to build the new business model that this energy future demands.

We are a leader in designing and implementing energy efficiency programs that enable our utility clients to reach their underserved markets and achieve their energy reduction goals. We offer utilities energy efficiency program delivery services targeted to their small- and mid-size business customers. Our programs help these businesses use less energy through the upgrade of existing equipment with new, more energy efficient equipment. This service allows the utility to delay investments in transmission and distribution upgrades and new power plants while cost-effectively complying with environmental regulations. The same programs provide benefits to the utility's customers in the form of lower energy bills, improved equipment reliability, reduced maintenance costs and a better overall operating environment.

We currently deliver energy efficiency programs for 12 of the 25 largest electric utilities in the United States, including the largest investor-owned utility and the largest public utility. We focus on deploying direct install energy efficiency solutions for small- and mid-size commercial customers that improve energy efficiency, reduce energy-related expenditures and lessen the impact of energy use on the environment. These programs include energy efficient lighting upgrades, mechanical (HVAC) upgrades, water conservation measures, building controls, refrigeration, pool pumps, building shell improvements and appliance recycling. Our small business energy solutions ("SBES") programs provide a cost-effective avenue for our utility clients to offer products and services to a hard-to-reach customer base, while satisfying aggressive state-mandated energy reduction goals.

Our SBES model is a turnkey solution under which we contract with our utility clients to design and market their small- and mid-size energy efficiency programs within a defined territory, perform the technical audits, sell the solution to the end-use customer and oversee the implementation of the energy efficiency measures. This model makes it easy and affordable for small businesses to upgrade to new, more energy efficient equipment. We deliver these programs for our utility clients on a performance basis, where we are only paid for delivered energy efficiency resources.

On March 24, 2015, the Company acquired EnerPath International Holding Company ("EnerPath"). This acquisition impacted our operating results for the first half of 2015. To finance the EnerPath acquisition,

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the Company issued a subordinated convertible note to Bison Capital Partners IV, L.P. (“Bison”) due March 24, 2020 in the principal amount of approximately \$11.7 million.

Recent Developments

New Revolving Credit Facility

On July 24, 2015, we entered into a Loan and Security Agreement (the “Loan Agreement”) with Heritage Bank of Commerce (the “Bank”).

The Loan Agreement provides a secured two-year revolving credit facility (expiring in July 2017) pursuant to which we are permitted to borrow up to an aggregate of \$6.0 million (the “Credit Facility”), which is available to fund working capital and other general corporate purposes. Our ability to draw on the Credit Facility is subject to customary conditions.

The Credit Facility bears variable interest at the prime rate plus 1.00% and is collateralized by certain assets of the Company and its subsidiaries including their respective accounts receivable, certain deposit and investment accounts, and intellectual property. As additional incentive to the Bank to enter into the Credit Facility and make available to the Company funds thereunder, the Company has issued to the Bank a warrant to purchase shares of the Company’s common stock up to \$60 thousand in the aggregate.

The Loan Agreement requires the Company to remain compliant with certain customary representations and warranties and a number of affirmative and negative covenants. The occurrence of an event of default under the Loan Agreement may cause amounts outstanding during the event of default to accrue interest at a rate of 3.00% above the interest rate that would otherwise be applicable.

Results of Operations

Revenue

We generate the majority of our revenue from the sale of our services and the resale of energy efficiency products that we purchase from our various suppliers. We charge our clients based upon an agreed-to rate schedule, which is based on the item installed or the savings generated. A typical project for a small business utility client can take anywhere from a few hours to a few weeks to complete.

Gross Profit

Gross profit equals our revenue less costs of sales. The cost of sales for our business consists primarily of the cost of materials, our internal labor (including engineering), and the cost of subcontracted labor.

Gross profit is a key metric that we use to evaluate our performance. Our gross profit depends in large part on the volume and mix of products and services that we sell during any given period.

Selling, General and Administrative Expenses

Our selling, general and administrative (“SG&A”) expenses include the following components:

- direct labor and commission costs related to our employee sales force;

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- costs of our non-production management, supervisory and staff salaries and employee benefits, including the costs of share-based compensation;
- 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.

Acquisition Costs

Acquisition costs are related to acquisition activities, which include legal, accounting, banking, and other expenses.

Amortization of Intangibles

When we acquire companies we allocate the purchase price to tangible assets (such as property, equipment, accounts receivable, etc.) and identifiable intangible assets (such as contract backlogs, customer lists, technology, trade name, etc.), with the balance recorded as goodwill. We amortize the value of certain intangible assets over their estimated useful lives as non-cash expense.

Other Income (expense)

Other Income (expense) includes net interest expense consisting of interest expense net of interest income, the extinguishment of debt charge from fair valuing our subordinated convertible notes upon amendment, and the loss due to the quarterly valuation of our derivative liability. Net interest expense represents the interest costs associated with our subordinated convertible term notes (including amortization of the related debt discount and issuance costs). Interest income includes earnings on our invested cash balances and amortization of the discount on our long-term receivables.

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Three Months Ended June 30, 2015 Compared to Three Months Ended June 30, 2014
Consolidated Results (in thousands)

	Three Months Ended June 30,		Change	
	2015	2014	\$	%
Revenue	\$ 31,950	\$ 13,590	\$ 18,360	135.1%
Cost of sales	21,078	9,176	11,902	129.7%
Gross profit	10,872	4,414	6,458	146.3%
Selling, general and administrative expenses	9,414	4,666	4,748	101.8%
Acquisition costs	244	—	244	0.0%
Amortization of intangibles	278	—	278	0.0%
Operating income (loss)	936	(252)	1,188	-471.4%
Other (expense) income, net	(1,688)	23	(1,711)	-7439.1%
Loss from continuing operations before income taxes	(752)	(229)	(523)	228.4%
Income tax expense	(75)	—	(75)	0.0%
Loss from continuing operations	(827)	(229)	(598)	261.1%
(Loss) Income from operation of discontinued business	(158)	55	(213)	-387.3%
Net loss	\$ (985)	\$ (174)	\$ (811)	466.1%

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The following table presents our consolidated results of operations as a percentage of revenue for the three months ended June 30, 2015 and 2014:

	Three Months Ended June 30,	
	2015	2014
Revenue	100.0%	100.0%
Cost of sales	66.0%	67.5%
Gross profit	34.0%	32.5%
Selling, general and administrative expenses	29.5%	34.3%
Acquisition costs	0.8%	0.0%
Amortization of intangibles	0.9%	0.0%
Operating loss	2.9%	-1.9%
Other (expense) income, net	-5.3%	0.2%
Loss from continuing operations before income taxes	-2.4%	-1.7%
Income tax expense	-0.2%	0.0%
Loss from continuing operations	-2.6%	-1.7%
(Loss) Income from operation of discontinued business	-0.5%	0.4%
Net loss	-3.1%	-1.3%

Revenue. Our consolidated revenue increased \$18.4 million, or 135.1%, to \$32.0 million during the second quarter of 2015, from \$13.6 million during the second quarter of 2014. The increase in revenue was driven primarily by the acquisition of EnerPath and by higher revenue from existing utility programs.

Gross Profit. The increase in revenue, in combination with an improved gross profit margin, led to a \$6.5 million, or 146.3%, increase in our gross profit during the second quarter of 2015, as compared to the second quarter of 2014. Our gross profit margin improved from 32.5% during the second quarter of 2014 to 34.0% during the second quarter of 2015. This improvement in our gross profit margin was the result of improved efficiencies in existing programs and higher margin contributions from new programs (including EnerPath programs) and renewed programs. We believe our gross profit margin will remain in the same range as for the second quarter of 2015; however, it will fluctuate up or down depending, on the level of contribution from individual programs, all of which have slightly different margin profiles. The gross profit margin we earn in the future may also be affected by the addition of new programs or the loss of any of the existing programs.

Selling, General and Administrative Expenses. Our SG&A expenses increased \$4.7 million, or 101.8%, to \$9.4 million during the second quarter of 2015, from \$4.7 million for same period in 2014. With the acquisition of EnerPath, our combined SG&A expenses as a percentage of revenue declined to 29.5% for the second quarter of 2015, as compared to 34.3% for the same period in 2014. Our costs related to the restatement we completed in July 2013, the stockholder lawsuits, and the SEC investigation totaled \$95

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thousand during the second quarter of 2015, which was \$211 thousand less than the \$306 thousand we incurred during the second quarter of 2014.

Acquisition Cost. During the second quarter of 2015, we incurred costs of \$244 thousand in connection with our acquisition of EnerPath. These costs included legal, accounting, banking, and other related transaction expenses. We did not incur any acquisition costs in the second quarter of 2014.

Amortization of Intangibles. Amortization expense for intangible assets for the second quarter of 2015 was \$278 thousand. There was no amortization expense for intangible assets in the second quarter of 2014.

Other (expense) income, net. Other (expense) income, net was \$1.7 million of expense during the three-month period ended June 30, 2015, an increase of \$1.7 million, as compared to the income of \$23 thousand for the same period in 2014.

Net interest expense was \$408 thousand during the second quarter of 2015, compared to net interest income of \$23 thousand during the second quarter of 2014, an increase of \$431 thousand. The components of interest expense for the three-month periods ended June 30, 2015 and 2014 were as follows (in thousands):

Three months ended June 30,	2015	2014
Line of credit	\$ 14	\$ —
Subordinated notes - Related Party	367	—
Total contractual interest	381	—
Amortization of deferred issuance costs	15	—
Amortization of debt discount - Related Party	49	—
Total interest expense	<u>\$ 445</u>	<u>\$ —</u>

We repaid in full all of our outstanding debt during 2013 and thus we had no interest expense during the second quarter of 2014. Interest expense for the second quarter of 2015 was related to the Bison Note (as defined below) and the Kiphart Letter of Credit (as defined below).

Amortization of deferred issuance costs and amortization of debt discount also contributed to our interest expense in the second quarter of 2015.

Our interest income increased \$14 thousand to \$37 thousand during the second quarter of 2015, from \$23 thousand earned during the second quarter of 2014. Substantially all of the interest income during both periods represented amortization of the discount on our long-term receivables. The increase in amortization was due to an increase in our long-term receivable balances. We expect continued increases in our long-term receivable balances in the future due to increased use of extended payment terms by customers under some of our utility programs.

A conversion feature included in the Bison Note is required to be bifurcated and recorded as a derivative liability. The derivative liability is recorded at fair value, which was determined to be \$6.4 million and

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\$7.7 million as of March 31, 2015 and June 30, 2015, respectively. The increase in the liability of \$1.3 million was recorded as a loss from the change in fair value of derivative liability.

On March 31, 2015, we amended the Bison Note. Pursuant to prevailing accounting guidance, this amendment was treated as an extinguishment of the original note and issuance of a new note. Upon extinguishment, the net carrying amount of the extinguished note (including its principal amount and related discounts and deferred financing costs) was written off and the fair value of the new note was established, resulting in a loss on extinguishment of debt of \$1.4 million.

Preferred Stock Dividends

The components of dividend expense were as follows (in thousands):

Three months ended June 30,	2015	2014
Series A dividend	\$ —	\$ 298
Series B dividend	—	188
Series C dividend	312	—
Total dividend expense	\$ 312	\$ 486

During the second quarter of 2015, we accrued dividends of \$312 thousand on our Series C Preferred Stock.

On December 23, 2014, in connection with the issuance of Series C Preferred Stock, all then outstanding shares of Series A Preferred Stock and Series B Preferred Stock were converted into shares of our common stock.

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Six Months Ended June 30, 2015 Compared to Six Months Ended June 30, 2014
Consolidated Results (in thousands)

	Six Months Ended June 30,		Change	
	2015	2014	\$	%
Revenue	\$ 50,249	\$ 25,871	\$ 24,378	94.2%
Cost of sales	33,878	17,727	16,151	91.1%
Gross profit	16,371	8,144	8,227	101.0%
Selling, general and administrative expenses	15,220	9,576	5,644	58.9%
Acquisition costs	937	—	937	0.0%
Amortization of intangibles	309	—	309	0.0%
Operating loss	(95)	(1,432)	1,337	-93.4%
Other (expense) income, net	(3,938)	39	(3,977)	-10197.4%
Loss from continuing operations before income taxes	(4,033)	(1,393)	(2,640)	189.5%
Income tax benefit	1,169	—	1,169	0.0%
Loss from continuing operations	(2,864)	(1,393)	(1,471)	105.6%
(Loss) Income from operation of discontinued business	(221)	52	(273)	-525.0%
Net loss	<u>\$ (3,085)</u>	<u>\$ (1,341)</u>	<u>\$ (1,744)</u>	<u>130.1%</u>

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The following table presents our consolidated results of operations as a percentage of revenue for the six months ended June 30, 2015 and 2014:

	Six Months Ended June 30,	
	2015	2014
Revenue	100.0%	100.0%
Cost of sales	67.4%	68.5%
Gross profit	32.6%	31.5%
Selling, general and administrative expenses	30.3%	37.0%
Acquisition costs	1.9%	0.0%
Amortization of intangibles	0.6%	0.0%
Operating loss	-0.2%	-5.5%
Other (expense) income, net	-7.8%	0.2%
Loss from continuing operations before income taxes	-8.0%	-5.4%
Income tax benefit	2.3%	0.0%
Loss from continuing operations	-5.7%	-5.4%
(Loss) Income from operation of discontinued business	-0.4%	0.2%
Net loss	-6.1%	-5.2%

Revenue. Our consolidated revenue increased \$24.4 million, or 94.2%, to \$50.2 million during the first half of 2015, from \$25.9 million during the first half of 2014. The increase in revenue was driven primarily by the acquisition of EnerPath and higher revenue from existing utility programs. All the programs are running at steady-state levels; therefore, we expect our growth in future periods to continue to moderate, unless there is an increase or decrease in the number of programs on which we are working.

Gross Profit. The increase in revenue, in combination with an improved gross profit margin, led to an \$8.2 million, or 101.0%, increase in our gross profit during the first half of 2015, as compared to the first half of 2014. Our gross profit margin improved from 31.5% during the first half of 2014 to 32.6% during the first half of 2015. This improvement was the result of improved efficiencies in existing programs and higher margin contributions from new programs such as the EnerPath programs, and renewed programs.

Selling, General and Administrative Expenses. Our SG&A expenses increased \$5.6 million, or 58.9%, to \$15.2 million during the first half of 2015, from \$9.6 million for the same period in 2014. With the acquisition of EnerPath, our combined SG&A expenses as a percentage of revenue declined to 30.3% for the first half of 2015, as compared to 37.0% for the same period in 2014. Our costs related to the restatement of financial restatements that we completed in July 2013, the stockholder lawsuits, and the SEC

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investigation totaled \$222 thousand during the first half of 2015, which was \$373 thousand less than the \$595 thousand we incurred during the first half of 2014.

Acquisition Cost. During the first half of 2015, we incurred costs of \$937 thousand in connection with our acquisition of EnerPath. These costs included legal, accounting, banking, and other related transaction expenses.

Amortization of Intangibles. Amortization expense for the intangible assets for the first half of 2015 was \$309 thousand. There was no amortization expense for intangible assets in the first half of 2014.

Other (expense) income, net. Other (expense) income, net decreased from income of \$39 thousand during the first half of 2014, to an expense of \$3.9 million during the same period in 2015.

Net interest expense was \$433 thousand during the first half of 2015, compared to net interest income of \$39 thousand during the first half of 2014, an increase of \$472 thousand. The components of interest expense for the six-month periods ended June 30, 2015 and 2014 were as follows (in thousands):

<u>Six months ended June 30,</u>	<u>2015</u>	<u>2014</u>
Line of credit	\$ 34	\$ —
Subordinated notes - Related Party	400	—
Total contractual interest	434	—
Amortization of deferred issuance costs	21	—
Amortization of debt discount - Related Party	49	—
Total interest expense	<u>\$ 504</u>	<u>\$ —</u>

We repaid in full all of our outstanding debt during 2013 and thus we had no interest expense during the first half of 2014. Interest expense for the first half of 2015 was related to the Bison Note and the Kiphart Letter of Credit.

Amortization of deferred issuance costs and amortization of debt discount also contributed to our interest expense in the first half of 2015.

Our interest income increased \$32 thousand to \$71 thousand during the first half of 2015, from \$39 thousand earned during the first half of 2014. Substantially all of the interest income during both periods represented amortization of the discount on our long-term receivables. The increase in amortization was due to an increase in our long-term receivable balances. We expect our long-term receivable balances will continue to increase in the future due to increased use of extended payment terms by customers under some of our utility programs.

A conversion feature included in the Bison Note is required to be bifurcated and recorded as a derivative liability. The derivative liability is recorded at fair value which was determined to be \$5.6 million and \$7.7 million as of its issuance date and June 30, 2015, respectively. The increase in the liability of \$2.1 million was recorded as a loss from the change in fair value of derivative liability.

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Income Tax Benefit

Income tax benefit was \$1.2 million for the first half of 2015. There was no income tax benefit or expense for the first half of 2014. Income tax benefit in 2015 included the release of a portion of the valuation allowance recorded against the Company's deferred income tax assets. The valuation allowance was relieved when the Company acquired a net deferred income tax liability upon the acquisition of EnerPath.

Preferred Stock Dividends

The components of dividend expense were as follows (in thousands):

Six months ended June 30,	2015	2014
Series A dividend	\$	\$ 594
Series B dividend		349
Series C dividend	620	—
Deemed dividend on Series A		178
Deemed dividend on Series B		832
Total dividend expense	\$ 620	\$ 1,953

During the first half of 2015, the Company accrued dividends of \$620 thousand on our Series C Preferred Stock.

Liquidity and Capital Resources

As of June 30, 2015, the Company had cash and cash equivalents of \$7.7 million (including restricted cash of \$1.8 million), compared to \$6.0 million (including \$500 thousand of restricted cash) as of December 31, 2014.

Our principal cash requirements are for operating expenses, the funding of accounts receivable, and capital expenditures. Since our inception, we have financed our operations primarily through the sale of equity, as well as various forms of secured debt.

Six Months Ended June 30, 2015 Compared to Six Months Ended June 30, 2014

The following table summarizes, for the periods indicated, selected items in our Consolidated Statements of Cash Flows (in thousands):

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<u>Six months ended June 30,</u>	<u>2015</u>	<u>2014</u>
Net cash provided by (used in) operating activities	\$ 461	\$ (8,153)
Net cash used in investing activities	(11,441)	(274)
Net cash provided by financing activities	<u>11,409</u>	<u>1,991</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 429	\$ (6,436)
Cash and Cash Equivalents, at beginning of period	<u>5,473</u>	<u>6,940</u>
Cash and Cash Equivalents, at end of period	<u>\$ 5,902</u>	<u>\$ 504</u>

Operating Activities

Operating activities generated cash of \$461 thousand during the six-month period ended June 30, 2015 as compared to consuming cash of \$8.2 million during the same period in 2014.

Whether cash is consumed or generated by operating activities is a function of the profitability of our operations and changes in working capital. To get a better understanding of cash sources and uses, our management splits the cash used or provided by operating activities into two pieces: the cash consumed or generated by operating activities before changes in assets and liabilities; and the cash consumed or generated from changes in assets and liabilities. Our management believes splitting the cash used or provided by operating activities this way, makes it is easier to understand how much of our operating cash flow is the result of the Company's current period cash earnings or loss and how much of our operating cash flow is due to changes in working capital. These two measures are calculated as follows (in thousands):

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Six Months Ended June 30,	2015	2014
Net Loss	\$ (3,085)	\$ (1,341)
Provision for bad debt	324	368
Share-based compensation	445	191
Depreciation and amortization	707	369
Change in derivative liability - Related Party	2,085	—
Loss on extinguishment of debt - Related Party	1,420	—
Deferred income tax benefit	(1,246)	—
Interest on Sub Notes added to principal - Related Party	400	—
Amortization of deferred financing costs	21	—
Amortization of original issue discount - Related Party	49	—
Establishment of restricted funds to release Letter of Credit	(1,300)	—
Cash consumed by operating activities before changes in assets and liabilities	<u>\$ (180)</u>	<u>\$ (413)</u>
Changes in assets and liabilities, net of business acquisitions and dispositions:		
Accounts receivable	\$ (3,266)	\$ (360)
Inventories	444	—
Costs and estimated earnings in excess of billings on uncompleted contracts	(391)	342
Prepaid and other	97	(232)
Assets of discontinued operations	40	1,297
Accounts payable	2,383	(2,372)
Accrued expenses	584	(1,649)
Billings in excess of costs and estimated earnings on uncompleted contracts	370	(1,292)
Other current liabilities	101	(1,664)
Liabilities of discontinued operations	279	(1,810)
Cash generated (consumed) from changes in assets and liabilities	<u>\$ 641</u>	<u>\$ (7,740)</u>

The reconciliation to net cash used in operating activities as reported in our Consolidated Statement of Cash Flows is as follows (in thousands):

Six Months Ended June 30,	2015	2014
Cash consumed by operating activities before changes in assets and liabilities	\$ (180)	\$ (413)
Cash generated (consumed) from changes in assets and liabilities	<u>641</u>	<u>(7,740)</u>
Net cash provided by (used in) operating activities	<u>\$ 461</u>	<u>\$ (8,153)</u>

The cash consumed by operating activities before changes in assets and liabilities decreased \$233 thousand, or 56.4%, to \$180 thousand during the first half of 2015, as compared to \$413 thousand consumed during the first half of 2014. This decline was due to a decrease in the cash loss (net income excluding non-cash items) for the period.

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Changes in assets and liabilities generated cash of approximately \$641 thousand during the first half of 2015, as compared to \$7.7 million consumed during the first half of 2014. We expect to generate/consume more modest amounts of cash from changes in working capital related assets and liabilities in future periods, if our sales grow as we anticipate they will.

Investing Activities

We consumed \$11.4 million of cash in investing activities during the first half of 2015, compared to \$274 thousand during the first half of 2014. The cash consumed during the first half of 2015 included the \$11.0 million used to acquire EnerPath and \$441 thousand used for capital expenditures, \$289 thousand of which was used to continue to develop the software platform used by our utility programs. All of the cash consumed during the first half of 2014 was for capital expenditures, the largest portion of which was used to continue to develop our software platform.

Financing Activities

During the first half of 2015, financing activities generated \$11.4 million of cash compared to \$2.0 million generated during the first half of 2014. During the six-month period ended June 30, 2015, we raised approximately \$11.7 million from the issuance of the Bison Note. This was partially offset by \$337 thousand of cash paid for deferred financing costs. During the six-month period ended June 30, 2014, we raised \$2.0 million through the sale of shares of Series B Preferred Stock. This was partially offset by \$9 thousand of costs related to the preferred stock issuance.

Sources of Liquidity

Our primary sources of liquidity are our available unrestricted cash reserves, including the remainder of the \$10 million proceeds from our sale of Series C Preferred Stock in December 2014.

Also, on August 1, 2014, the Company entered into a Letter of Credit Agreement with Mr. Kiphart (the "LOC Agreement"), which replaced a previous letter of credit agreement that the Company had entered into with Mr. Kiphart on December 7, 2012. Pursuant to the LOC Agreement, Mr. Kiphart agreed to cause, at the Company's request, the issuance of one or more letters of credit (collectively, the "Kiphart Letter of Credit") for the benefit of a surety, up to an aggregate amount of \$1.3 million. The Kiphart Letter of Credit is being used to guarantee certain obligations of the Company in connection with its performance under a contract between the Company and a utility customer. Mr. Kiphart's obligation to cause the issuance of, or leave in place, the Kiphart Letter of Credit will terminate on December 31, 2019. The Company agreed to indemnify Mr. Kiphart for any liability in connection with any payment or disbursement made under the Kiphart Letter of Credit. The Company also agreed to pay for or reimburse any fees and out-of-pocket expenses incurred by Mr. Kiphart in connection with the Kiphart Letter of Credit. All amounts due to Mr. Kiphart under the LOC Agreement are payable by the Company within ten business days of the Company's receipt of a written demand thereof from Mr. Kiphart.

In addition, the Company agreed to pay Mr. Kiphart simple interest on the aggregate amount of the Kiphart Letter of Credit at a rate of six percent per annum. The Company accrued interest of \$14 thousand and \$34 thousand during the three and six months ended June 30, 2015, respectively.

In May 2015, we replaced the Kiphart Letter of Credit with restricted funds of the Company in the amount of \$1.3 million.

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As previously discussed, on March 24, 2015, the Company issued to Bison a subordinated convertible note due March 24, 2020 in the principal amount of approximately \$11.7 million (the “Bison Note”). For a description of the issuance of the Bison Note, see Note 6—“Subordinated Convertible Term Notes” of the Notes to our Unaudited Condensed Consolidated Financial Statements.

As set forth in the Bison Note, beginning with the quarter ending March 31, 2016, the Company must meet certain rolling twelve-month Adjusted EBITDA targets, as defined in the Bison Note. A breach of this covenant would create an event of default, which could cause acceleration of the Bison Note’s maturity. The Adjusted EBITDA target for the twelve months ending March 31, 2016 is \$6.3 million. Achievement of this target will depend on many factors including the amount, timing and profitability of future revenues and the integration efforts related to our recent acquisition of EnerPath, among other things. In the event the Company does not meet the target and the Bison Note holders accelerate payment of the Bison Note principal and accrued interest, the Company will likely be required to refinance the Bison Note with other debt or equity or to sell assets. There can be no assurance that the Company will be able to do so on favorable terms or at all.

Our ability to continue to expand the sales of our products and services will require continued commitment of significant funds. The actual timing and amount of our future funding requirements will depend on many factors including, in particular, the amount, timing and profitability of future revenues, working capital requirements, the level and amount of product marketing and sales efforts.

Since our inception, we have raised a significant amount of capital through the issuance of shares of our common and preferred stock and the issuance of debt, which has allowed us to continue to execute our business plan. Most of these funds were used in operating activities, either for working capital requirements or to fund our losses.

If our revenue grows and our gross profit margin improves, in line with our expectations, and we are successful in reducing our overhead costs, we believe our cash flows will continue to improve and may turn positive during 2015. However, if our profitability does not improve and we determine it is necessary to raise additional capital, there is no assurance we will be able to do so on favorable terms, if at all. In the event we need to raise additional capital in the future but are unable to do so, we may have to scale back our operations or cease our business activities altogether.

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Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, including our chief executive officer and our chief financial officer, maintains our “disclosure controls and procedures” (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) and has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Report. Based on such evaluation, our chief executive officer and chief financial officer have concluded that, as of June 30, 2015, such disclosure controls and procedures were effective for the purpose of ensuring that material information required to be in the reports that we submit, file, furnish or otherwise provide to the Securities and Exchange Commission is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Controls.

There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the quarter ended June 30, 2015 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

Limitations of the Effectiveness of Internal Control

A control system, no matter how well conceived and operated, cannot provide absolute assurance that all its objectives are met. Because of the inherent limitations of any internal control system, our internal control over financial reporting cannot provide absolute assurance that all control issues, if any, within a company have been detected.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

The Company is from time to time involved in legal proceedings, which are subject to many uncertainties and the outcomes of which are not within its control and may not be known for prolonged periods of time. The Company is currently party to the following material legal proceedings:

Kuberski v. Lime Energy Co. et al., United States District Court for the Northern District of Illinois, Case No. 12-cv-7993. As previously disclosed, this putative shareholder derivative action alleged that several of the Company’s former officers and present and former directors breached their fiduciary duties to the Company from May 14, 2008 through the date of the action. On April 1, 2015, the parties entered a Stipulation and Agreement of Settlement, and a hearing on the proposed settlement was scheduled for July 7, 2015. On May 5, 2015, the Court entered a preliminary order approving the Stipulation and Agreement of Settlement. On July 7, 2015, the Court entered a final Order approving the settlement and dismissed the case with prejudice. The settlement amount was fully covered by the Company’s insurance policy.

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SEC Investigation. The Company remains subject to an investigation the SEC launched in 2012 with respect to the Company's revenue recognition practices and financial reporting. The Company has responded to the SEC's various document requests and the SEC has conducted interviews of certain of the Company's employees. In July 2015, the SEC asked for additional documentation. The Company is in the process of responding to the latest document request and intends to continue to cooperate with the SEC staff.

Dressler v. Lime Energy, United States District Court for the District of New Jersey, Case 3:14-cv-07060-FLW-DEA. This purported "whistleblower" case was filed on November 10, 2014, alleging illegal retaliation by the Company for the plaintiff's alleged disclosure of activity she believed violated the Securities Exchange Act of 1934, as amended. The plaintiff alleges that she made repeated disclosures to various individuals employed by the Company that certain accounting practices were improper and could lead to a restatement of financial statements. The plaintiff filed her complaint pursuant to the Sarbanes-Oxley Act of 2002 (18 U.S.C. §1514A), and the Dodd-Frank Wall Street Reform and Consumer Protection Act (15 U.S.C. §78u-6, et seq.). This case has been accepted for coverage under the Lime Executive Protection Portfolio Policy. On January 20, 2015, the Company filed a motion to dismiss for failure of the plaintiff to meet the definition of a "whistleblower" under the Dodd-Frank Act. The plaintiff opposed the motion and, on February 24, 2015, the Company filed its reply brief in support of the motion to dismiss. The parties are currently waiting for the court to rule on the motion.

Item 1A. RISK FACTORS

There has been no material change in our risk factors since December 31, 2014. Please refer to our Annual Report on Form 10-K for the fiscal year ended December 31, 2014 for our risk factors.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On March 24, 2015, the Company entered into a Note Purchase Agreement (the "Note Purchase Agreement") with Bison pursuant to which the Company issued a subordinated convertible note due March 24, 2020 in the principal amount of approximately \$11.7 million (the "Note"). The proceeds from the Note issuance were used to finance the EnerPath Acquisition and to pay fees and expenses incurred in connection therewith (including certain fees and expenses incurred by Bison in connection with the Note Purchase Agreement). As of the date the Note was issued, Bison owned 10,000 shares of the Company's Series C Preferred Stock, which was convertible into approximately 30% of our common stock, and was the Company's single largest stockholder. Two of our directors, Andreas Hildebrand and Peter Macdonald, are partners of an affiliate of Bison. Mr. Hildebrand and Mr. Macdonald recused themselves from the Board's consideration of the Note issuance transaction.

The Note was subsequently amended on March 31, 2015 (the "Note Amendment"). The Note, as amended, provides that the Company may, at its option, pay interest at the annual rate (the "Interest Rate") of 10.5% on the outstanding principal amount, payable semi-annually in cash, or allow interest to accrue and be added to the principal amount at an Interest Rate of 12.5%. During an event of default, the Interest Rate would increase by 2.0% until the Note is redeemed or the event of default is cured. All or any portion of the principal amount of the Note plus any accrued but unpaid interest may, at the election of the Note holder, be converted into common stock after March 24, 2018 or the occurrence of a change of control of the Company, whichever occurs first. The initial conversion price of the Note was \$3.16; however, the Note may not convert into in more than 19.99% of the outstanding common stock prior to the date on which the

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stockholders' approval of the removal of this cap becomes effective. The conversion price is subject to anti-dilution adjustments, adjustments in connection with stock splits and similar occurrences, and certain other events set forth in the Note. The Note is guaranteed by each subsidiary of the Company, including EnerPath and each of its subsidiaries, and is secured by a lien on all of the assets of the Company and each of its subsidiaries. The Company may not elect to prepay the Note. The Company is subject to certain financial, affirmative and negative covenants, including a minimum EBITDA covenant beginning in 2016, as set forth in the Note. If certain trailing EBITDA targets are not met as of June 30, 2015, September 30, 2015 or December 31, 2015, an additional \$1 million of interest for each such quarter in which such EBITDA target is not met, becomes due at the earlier of maturity, redemption or acceleration. The Note Amendment provides that only up to the original principal amount of the Note may convert to common stock. As of March 31, 2015, \$11.75 million in principal amount was outstanding under the Note.

Item 6. EXHIBITS

The information required by this item is set forth on the exhibit index that follows the signature page of this Report.

Exhibit Index

Exhibit No.	Description
3.1	First Restated Certificate of Incorporation of Lime Energy Co., dated December 18, 2009, as amended by Certificate of Amendment dated October 9, 2013 (incorporated by reference from Exhibit 3.1 to the Company's Periodic Report on Form 10-Q filed on November 14, 2013).
3.2	Amended and Restated By-laws of Lime Energy Co. (incorporated by reference from Exhibit 3.2 to the Company's Current Report on Form 8-K filed on December 30, 2014).
3.3	Certificate of Designation for the Series C Preferred Stock (incorporated by reference from Exhibit 3.1 to the Company's Current Report on Form 8-K filed on December 30, 2014).
4.1*	Loan and Security Agreement dated July 24, 2015, by and between the Company and Heritage Bank of Commerce.
10.1	Stipulation and Agreement of Settlement (incorporated by reference from Exhibit 99.2 to the Company's Current Report on Form 8-K filed on May 8, 2015).
31.1*	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101*	The following financial information from Lime Energy Co.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2015, filed with the SEC on August 14, 2015, formatted in eXtensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statement of Stockholders' Equity, (iv) the Condensed Consolidated Statements of Cash Flow, and (v) Notes to Condensed Consolidated Financial Statements.

* Filed herewith.

** Furnished herewith.

**LIME ENERGY CO.
HERITAGE BANK OF COMMERCE
LOAN AND SECURITY AGREEMENT**

This **LOAN AND SECURITY AGREEMENT** is entered into as of July 24, 2015, by and between HERITAGE BANK OF COMMERCE (“Bank”) and LIME ENERGY CO., a Delaware corporation (“Borrower”).

RECITALS

Borrower wishes to obtain credit from time to time from Bank, and Bank desires to extend credit to Borrower. This Agreement sets forth the terms on which Bank will advance credit to Borrower, and Borrower will repay the amounts owing to Bank.

AGREEMENT

The parties agree as follows:

1. DEFINITIONS AND CONSTRUCTION.

1.1 Definitions. As used in this Agreement, the following terms shall have the following definitions:

“Accounts” means all presently existing and hereafter arising accounts, contract rights, payment intangibles, and all other forms of obligations owing to Borrower or any guarantor arising out of the sale or lease of goods (including, without limitation, the licensing of software and other technology) or the rendering of services by Borrower or such guarantor, whether or not earned by performance, and any and all credit insurance, guaranties, and other security therefor, as well as all merchandise returned to or reclaimed by Borrower or such guarantor, and Borrower’s Books (or guarantor’s books) relating to any of the foregoing.

“Advance” or “Advances” means a cash advance or cash advances under the Revolving Facility.

“Affiliate” means, with respect to any Person, any Person that owns or controls directly or indirectly such Person, any Person that controls or is controlled by or is under common control with such Person, and each of such Person’s senior executive officers, directors, and partners.

“Bank Expenses” means all: reasonable costs or expenses (including reasonable attorneys’ fees and expenses) incurred in connection with the preparation, negotiation, administration, and enforcement of the Loan Documents; reasonable Collateral audit fees; and Bank’s reasonable attorneys’ fees and expenses incurred in amending, enforcing or defending the Loan Documents (including fees and expenses of appeal), incurred before, during and after an Insolvency Proceeding, whether or not suit is brought.

“Borrower’s Books” means all of Borrower’s books and records including: ledgers; records concerning Borrower’s assets or liabilities, the Collateral, business operations or financial condition; and all computer programs, or tape files, and the equipment, containing such information.

“Borrowing Base” means an amount equal to, as determined by Bank with reference to the most recent Borrowing Base Certificate delivered by Borrower, (i) eighty-five percent (85%) of Eligible Accounts, plus (ii) the lesser of (a) Three Million Dollars (\$3,000,000) and (b) seventy percent (70%) of accounts receivable from Non-Utility Accounts, minus (iii) an amount equal to Three Hundred Thirty Thousand Dollars (\$330,000) so long as the Permitted Indebtedness to Green Gas Americas, Inc. pursuant to that certain Unconditional Guaranty dated October 30, 2013 by Lime Energy Services, Co. remains outstanding.

“Business Day” means any day that is not a Saturday, Sunday, or other day on which banks in the State of California are authorized or required to close.

“Change in Control” shall mean a transaction in which any “person” or “group” (within the meaning of Section 13(d) and 14(d)(2) of the Securities Exchange Act of 1934) becomes the “beneficial owner” (as defined in Rule 13d-3 under the Securities Exchange Act of 1934), directly or indirectly, of in excess of 50% of the voting power of the Corporation, who did not have such power before such transaction.

“Closing Date” means the date of this Agreement.

“Code” means the California Uniform Commercial Code.

“Collateral” means the property described on **Exhibit A** attached hereto.

“Contingent Obligation” means, as applied to any Person, any direct or indirect liability, contingent or otherwise, of that Person with respect to (i) any indebtedness, lease, dividend, letter of credit or other obligation of another; (ii) any obligations with respect to undrawn letters of credit, corporate credit cards, or merchant services issued or provided for the account of that Person; and (iii) all obligations arising under any agreement or arrangement designed to protect such Person against fluctuation in interest rates, currency exchange rates or commodity prices; provided, however, that the term “Contingent Obligation” shall not include endorsements for collection or deposit in the ordinary course of business. The amount of any Contingent Obligation shall be deemed to be an amount equal to the stated or determined amount of the primary obligation in respect of which such Contingent Obligation is made or, if not stated or determinable, the maximum reasonably anticipated liability in respect thereof as determined by Bank in good faith; provided, however, that such amount shall not in any event exceed the maximum amount of the obligations under the guarantee or other support arrangement.

“Convertible Notes” means (i) those certain Subordinated Secured Convertible Promissory Notes of Borrower issued pursuant to that certain Note Purchase Agreement, dated March 24, 2015, among Borrower, the purchasers named therein and Bison Capital Partners IV, L.P, in each case as amended, restated, extended, supplemented or otherwise modified from time to time and (ii) the “Loan Documents” described in the Note Purchase Agreement, dated March 24, 2015, among Borrower, the purchasers named therein and Bison Capital Partners IV, L.P, in each case as amended, restated, extended, supplemented or otherwise modified from time to time.

“Copyrights” means any and all copyright rights, copyright applications, copyright registrations and like protections in each work or authorship and derivative work thereof.

“Credit Extension” means each Advance, or any other extension of credit by Bank for the benefit of Borrower hereunder.

“Daily Balance” means the amount of the Obligations owed at the end of a given day.

“EBITDA” means earnings (i) before interest, taxes, depreciation and amortization expenses; write-offs and other costs of discontinued operations; the SEC Liability; and expenses related to this financing, the Convertible Notes, any acquisition or any financing thereof; (ii) plus proceeds of equity capital or equity contributions or Subordinated Debt.

“Eligible Accounts” means those Accounts from Utility Companies that arise in the ordinary course of Borrower’s or any guarantor’s business that comply with all of Borrower’s representations and warranties to Bank set forth in Section 5.4; provided, that standards of eligibility may be fixed and revised from time to time by Bank in Bank’s Permitted Discretion and upon notification thereof to Borrower in accordance with the provisions hereof, provided, that the Accounts of any guarantor shall only be included following Bank’s review of and written consent to the same. Unless otherwise agreed to by Bank, Eligible Accounts shall not include the following:

- (a) Amounts that the account debtor has failed to pay within ninety (90) days of invoice date;
 - (b) Accounts with respect to an account debtor, twenty-five percent (25%) of whose Accounts the account debtor has failed to pay within ninety (90) days of invoice date;
 - (c) Accounts with respect to which the account debtor is an officer, employee, or agent of Borrower;
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- (d) Accounts with respect to which goods are placed on consignment, guaranteed sale, sale or return, sale on approval, bill and hold, demo or promotional, or other terms by reason of which the payment by the account debtor may be conditional;
- (e) Accounts with respect to which the account debtor is an Affiliate of Borrower;
- (f) Accounts with respect to which the account debtor does not have its principal place of business in the United States, except for Eligible Foreign Accounts;
- (g) Accounts with respect to which the account debtor is the United States or any department, agency, or instrumentality of the United States, except for Accounts of the United States if the payee has assigned its payment rights to Bank, the assignment has been acknowledged under the Assignment of Claims Act of 1940 (31 U.S.C. Section 3727), and such assignment otherwise complies with the Assignment of Claims Act to Bank's reasonable satisfaction in the exercise of its reasonable credit judgment;
- (h) Accounts with respect to which Borrower is liable to the account debtor for goods sold or services rendered by the account debtor to Borrower or for deposits or other property of the account debtor held by Borrower, but only to the extent of any amounts owing to the account debtor against amounts owed to Borrower;
- (i) Accounts with respect to an account debtor, including Subsidiaries and Affiliates, whose total obligations to Borrower exceed thirty percent (30%) of all Accounts, to the extent such obligations exceed the aforementioned percentage, except as approved in writing by Bank;
- (j) Accounts that have not yet been billed to the account debtor or that relate to deposits (such as good faith deposits) or other property of the account debtor held by Borrower for the performance of services or delivery of goods which Borrower has not yet performed or delivered;
- (k) Prebillings, retention billings, progress billings or bonded receivables;
- (l) Accounts with respect to which the account debtor disputes liability or makes any claim with respect thereto as to which Bank believes, in its sole discretion, that there may be a basis for dispute (but only to the extent of the amount subject to such dispute or claim);
- (m) Accounts with respect to which the account debtor is a consumer (individual accounts);
- (n) [Reserved]
- (o) Accounts with respect to which the account debtor is subject to any bankruptcy procedure, Insolvency Proceeding, or becomes insolvent, or goes out of business; and
- (p) Accounts which Bank reasonably determines to be unsatisfactory for inclusion as an Eligible Account.

"Eligible Foreign Accounts" means Accounts with respect to which the account debtor does not have its principal place of business in the United States and that (i) are supported by one or more letters of credit in an amount and of a tenor, and issued by a financial institution, reasonably acceptable to Bank, (ii) covered in full by credit insurance satisfactory to Bank, less any deductible, or (iii) that Bank approves on a case-by-case basis.

"Equipment" means all present and future machinery, equipment, tenant improvements, furniture, fixtures, vehicles, tools, parts and attachments in which Borrower has any interest.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended, and the regulations thereunder.

“Event of Default” has the meaning assigned in Section 8.

“Excluded Taxes” means any of the following Taxes imposed on or with respect to the Bank or required to be withheld or deducted from a payment to the Bank, (a) Taxes imposed on or measured by net income (however denominated), franchise Taxes, and branch profits Taxes, in each case, (i) imposed as a result of the Bank being organized under the laws of, or having its principal office or, its applicable lending office located in, the jurisdiction imposing such Tax (or any political subdivision thereof) or (ii) that are Other Connection Taxes, (b) U.S. federal withholding Taxes imposed on amounts payable to or for the account of the Bank with respect to an applicable interest in a Credit Extension pursuant to a law in effect on the date on which the Bank acquires its interest in the Revolving Facility and (c) any U.S. federal withholding Taxes imposed under FATCA.

“FATCA” means Sections 1471 through 1474 of the IRC, as of the date of this Agreement (or any amended or successor version that is substantively comparable and not materially more onerous to comply with), any current or future regulations or official interpretations thereof and any agreements entered into pursuant to Section 1471(b)(1) of the IRC.

“Financial Forecast” means Borrower’s 2015 financial forecast as set forth in Borrower’s financial plan approved by Bank as of the Closing Date as such financial forecast may be revised at the end of each fiscal quarter of the Company following the Closing Date to reflect Permitted Acquisitions, the imposition of the SEC Liability, if any, and such other facts and circumstances as shall, at such time, be deemed reasonably likely by the Borrower.

“GAAP” means generally accepted accounting principles as in effect from time to time.

“Indebtedness” means, without duplication, (a) all indebtedness for borrowed money or the deferred purchase price of property or services (other than those on ordinary trade terms), including without limitation reimbursement and other obligations with respect to surety bonds and letters of credit, (b) all obligations evidenced by notes, bonds, debentures or similar instruments, (c) all capital lease obligations and (d) all Contingent Obligations respecting obligations of the type set forth in (a), (b) or (c) above.

“Insolvency Proceeding” means any proceeding commenced by or against any person or entity under any provision of the United States Bankruptcy Code, as amended, or under any other bankruptcy or insolvency law, including assignments for the benefit of creditors, formal or informal moratoria, compositions, extension generally with its creditors, or proceedings seeking reorganization, arrangement, or other relief.

“Intellectual Property” means all of Borrower’s right, title, and interest in and to the following: Copyrights, Trademarks and Patents; all trade secrets, all design rights, claims for damages by way of past, present and future infringement of any of the rights included above, all licenses or other rights to use any of the Copyrights, Patents or Trademarks, and all license fees and royalties arising from such use to the extent permitted by such license or rights; all amendments, renewals and extensions of any of the Copyrights, Trademarks or Patents; and all proceeds and products of the foregoing, including without limitation all payments under insurance or any indemnity or warranty payable in respect of any of the foregoing.

“Inventory” means all inventory in which Borrower has or acquires any interest, including work in process and finished products intended for sale or lease or to be furnished under a contract of service, of every kind and description now or at any time hereafter owned by or in the custody or possession, actual or constructive, of Borrower, including such inventory as is temporarily out of its custody or possession or in transit and including any returns upon any accounts or other proceeds, including insurance proceeds, resulting from the sale or disposition of any of the foregoing and any documents of title representing any of the above, and Borrower’s Books relating to any of the foregoing.

“Investment” means any beneficial ownership of (including stock, partnership interest or other securities) any Person, or any loan, advance or capital contribution to any Person.

“IRC” means the Internal Revenue Code of 1986, as amended, and the regulations thereunder.

“Lien” means any mortgage, lien, deed of trust, charge, pledge, security interest or other encumbrance.

“Loan Documents” means, collectively, this Agreement, any note or notes executed by Borrower, any guarantees by third parties, all documents and agreements listed in Section 3.1, and any other agreement entered into in connection with this Agreement, all as amended or extended from time to time.

“Material Adverse Effect” means a material adverse effect on (i) the business operations, financial condition of Borrower and its Subsidiaries taken as a whole or (ii) the ability of Borrower to repay the Obligations or otherwise perform its material obligations under the Loan Documents or (iii) the value or priority of Bank’s security interests in the Collateral.

“Morgan Stanley Account” means the deposit account in existence on the date hereof and maintained with Morgan Stanley at 2800 Post Oak Blvd, Ste 1800, Houston, Texas.

“Negotiable Collateral” means all letters of credit of which Borrower is a beneficiary, notes, drafts, instruments, securities, documents of title, and chattel paper, and Borrower’s Books relating to any of the foregoing.

“Non-Utility Accounts” means Accounts owing by an account debtor that is not a Utility Company.

“Northern Trust Account” means the deposit account in existence on the date hereof and maintained with Northern Trust Bank at 50 South LaSalle Street, Chicago, Illinois.

“Obligations” means all debt, principal, interest, Bank Expenses and other amounts owed to Bank by Borrower pursuant to this Agreement or any other agreement entered into in connection herewith, whether absolute or contingent, due or to become due, now existing or hereafter arising, including any interest that accrues after the commencement of an Insolvency Proceeding and including any debt, liability, or obligation owing from Borrower to others that Bank may have obtained by assignment or otherwise.

“Other Connection Taxes” means, Taxes imposed as a result of a present or former connection between the Bank and the jurisdiction imposing such Tax (other than connections arising from the Bank having executed, delivered, become a party to, performed its obligations under, received payments under, received or perfected a security interest under, engaged in any other transaction pursuant to or enforced any Loan Document, or sold or assigned an interest in the Revolving Facility or any Loan Document).

“Patents” means all patents, patent applications and like protections including without limitation improvements, divisions, continuations, renewals, reissues, extensions and continuations-in-part of the same.

“Periodic Payments” means all installments or similar recurring payments that Borrower may now or hereafter become obligated to pay to Bank pursuant to the terms and provisions of this Agreement or any other instrument, or agreement now or hereafter in existence between Borrower and Bank entered into in connection herewith.

“Permitted Acquisitions” mean acquisitions of, or joint ventures in, other businesses that are in the same or substantially similar or related to the business of the Borrower on the date of this Agreement (whether by way of asset acquisition, merger, equity acquisition or otherwise) where (i) an Event of Default does not exist immediately before, and would not exist immediately after, giving effect to any such acquisition or joint venture and (ii) the aggregate consideration paid in connection with such transaction (including assumption of liabilities) does not exceed Fifteen Million Dollars (\$15,000,000) in the aggregate for all Permitted Acquisitions in any fiscal year.

“Permitted Discretion” means the reasonable judgment of Bank consistent with past practice and upon at least two (2) Business Days’ prior written notice to Borrower.

“Permitted Indebtedness” means:

- Document;
- (a) Indebtedness of Borrower in favor of Bank arising under this Agreement or any other Loan
 - (b) Indebtedness existing on the Closing Date and disclosed in the Schedule;
 - (c) Indebtedness secured by a lien described in clause (c) of the defined term “Permitted Liens,” provided (i) the principal amount of such Indebtedness does not exceed the lesser of the cost or fair market value of the equipment financed with such Indebtedness and (ii) such Indebtedness does not exceed Three Hundred Thousand Dollars (\$300,000) in the aggregate at any given time;
 - (d) Intercompany Indebtedness among the Borrower and its Subsidiaries; and
 - (e) Indebtedness of any Person that is acquired by the Borrower or its Subsidiaries in accordance with the terms of this Agreement so long as such Indebtedness was not incurred in contemplation of such acquisition;
 - (f) Earn-outs and other deferred payment obligations in connection with Permitted Acquisitions;
 - (g) Subordinated Debt;
 - (h) Convertible Notes;
 - (i) Obligations with respect to surety or performance bonds that are required or requested by a customer in connection with products purchased or services performed for such customer;
 - (j) Cash pledged to a bonding company as collateral for a surety or performance bond ;
 - (k) Letter of credit facilities not to exceed One Million Five Hundred Thousand Dollars (\$1,500,000) in the aggregate at any time outstanding;
 - (l) Indebtedness in connection with insurance premium financing, credit cards or similar programs;
- and
- (m) Other Indebtedness in any aggregate outstanding principal amount not exceeding Two Hundred Thousand Dollars (\$200,000) at any time.

“Permitted Investment” means:

- (a) Investments existing on the Closing Date disclosed in the Schedule;
 - (b) Intercompany Investments among the Borrower and its Subsidiaries;
 - (c) (i) marketable direct obligations issued or unconditionally guaranteed by the United States of America or any agency or any State thereof maturing within one (1) year from the date of acquisition thereof, (ii) commercial paper maturing no more than one (1) year from the date of creation thereof and currently having rating of at least A-2 or P-2 from either Standard & Poor’s Corporation or Moody’s Investors Service, (iii) certificates of deposit maturing no more than one (1) year from the date of investment therein issued by Bank and (iv) Bank’s money market accounts; and
 - (d) Permitted Acquisitions.
-

“Permitted Liens” means the following:

- (a) Any Liens existing on the Closing Date and disclosed in the Schedule or arising under this Agreement or the other Loan Documents;
 - (b) Liens for taxes, fees, assessments or other governmental charges or levies, either not delinquent or being contested in good faith by appropriate proceedings, provided the same have no priority over any of Bank’s security interests;
 - (c) Liens (i) upon or in any equipment which was not financed by Bank acquired or held by Borrower or any of its Subsidiaries to secure the purchase price of such equipment or indebtedness incurred solely for the purpose of financing the acquisition of such equipment, or (ii) existing on such equipment at the time of its acquisition, provided that the Lien is confined solely to the property so acquired and improvements thereon, and the proceeds of such equipment;
 - (d) Liens securing Indebtedness permitted under clause (e) of the definition of Permitted Indebtedness so long as such Liens are not granted on property that was not included in the Liens granted by the acquired entity;
 - (e) Liens on cash collateral securing Indebtedness permitted under clause (k) of the definition of Permitted Indebtedness so long as such cash collateral does not exceed 105% of the face amount of the letters of credit outstanding at any time;
 - (f) Liens incurred in connection with the extension, renewal or refinancing of the indebtedness secured by Liens of the type described in clauses (a) through (c) above, provided that any extension, renewal or replacement Lien shall be limited to the property encumbered by the existing Lien and the principal amount of the indebtedness being extended, renewed or refinanced does not increase ;
 - (g) Subordinated Liens securing the Convertible Notes;
 - (h) obligations in the nature of surety bonds, performance bonds and similar Liens (including cash collateral) in connection with projects or used to stay judgments not otherwise constituting an Event of Default;
 - (i) rent deposits and other deposits in the ordinary course of business;
 - (j) inchoate Liens in connection with taxes that are otherwise permitted hereunder;
 - (k) customary setoff rights in connection with deposit accounts;
 - (l) Liens incurred in connection with the Northern Trust Account and the Morgan Stanley Account;
- and
- (m) Liens securing obligations in any amount less than Twenty Five Thousand Dollars (\$25,000).

“Person” means any individual, sole proprietorship, partnership, limited liability company, joint venture, trust, unincorporated organization, association, corporation, institution, public benefit corporation, firm, joint stock company, estate, entity or governmental agency.

“Prime Rate” means the variable rate of interest, per annum, that appears in The Wall Street Journal from time to time, whether or not such announced rate is the lowest rate available from Bank.

“Responsible Officer” means each of the Chief Executive Officer, the Chief Operating Officer, the Chief Financial Officer and the Controller of Borrower.

“Revolving Facility” means the facility under which Borrower may request Bank to issue Advances, as specified in Section 2.1(a) hereof.

“Revolving Line” means a credit extension of up to Six Million Dollars (\$6,000,000).

“Revolving Maturity Date” means July 24, 2017.

“Schedule” means the schedule of exceptions attached hereto and approved by Bank, if any.

“SEC Liability” means any and all fines, judgments, settlement amounts or penalties imposed by the SEC on Borrower in connection with the SEC Matter plus any costs and expenses incurred or paid in connection with the SEC Matter (including attorney’s fees and any indemnification costs incurred after such date).

“SEC Matter” means the U.S. Securities and Exchange Commission’s (the “SEC”) investigation of Borrower’s revenue recognition practices and financial reporting.

“Series C Preferred Stock Agreements” means those certain agreements and documents relating to the issuance of 10,000 shares of Borrower’s Series C Preferred Stock, par value \$0.01 per share, to Bison Capital Partners IV, L.P.

“Shares” is one hundred percent (100%) of the issued and outstanding capital stock, membership units or other securities owned or held of record by a Borrower or any Subsidiary of Borrower, in any direct or indirect Subsidiary.

“Subordinated Debt” means any debt incurred by Borrower that is subordinated to the debt owing by Borrower to Bank on terms acceptable to Bank (and identified as being such by Borrower and Bank).

“Subsidiary” means, as to any Person, a corporation, partnership, limited liability company or other entity of which shares of stock or other ownership interests having ordinary voting power (other than stock or such other ownership interests having such power only by reason of the happening of a contingency) to elect a majority of the board of directors or other managers of such corporation, partnership or other entity are at the time owned, or the management of which is otherwise controlled, directly or indirectly through one or more intermediaries (including any Affiliate), or both, by such Person. Unless the context otherwise requires, each reference to a Subsidiary herein shall be a reference to a Subsidiary of Borrower.

“Trademarks” means any trademark and servicemark rights, whether registered or not, applications to register and registrations of the same and like protections, and the entire goodwill of the business of Borrower connected with and symbolized by such trademarks.

“Utility Company” means a public utility company or program managed by a utility, state, a political subdivision thereof, or utility-sanctioned administrator or independent commission or TRC Companies, Inc. (or any affiliate thereof) or the Southern California Public Power Authority (or any affiliate thereof).

1.2 Accounting Terms. All accounting terms not specifically defined herein shall be construed in accordance with GAAP and all calculations made hereunder shall be made in accordance with GAAP. When used herein, the terms “financial statements” shall include the notes and schedules thereto. Notwithstanding the foregoing, in the event that GAAP changes after the date of this Agreement in such a manner as to change the result of any financial covenant or business covenant that is determined in accordance with GAAP concepts (e.g., if there is a change under GAAP as to whether certain leases constitute capital leases), then (a) the Borrower shall continue to apply GAAP as in effect on the date of this Agreement with respect to such determination until the parties agree otherwise and during such time, the Borrower shall deliver to the Bank a reconciliation of the calculation showing the adjustment to then-existing GAAP and (b) the parties shall negotiate in good faith such changes to this Agreement so as to give effect to the original intent of the parties.

2. LOAN AND TERMS OF PAYMENT.

2.1 Credit Extensions.

Borrower promises to pay to the order of Bank, in lawful money of the United States of America, the aggregate unpaid principal amount of all Credit Extensions made by Bank to Borrower hereunder. Borrower shall also pay interest on the unpaid principal amount of such Credit Extensions at rates in accordance with the terms hereof.

(a) Revolving Advances.

(i) Subject to and upon the terms and conditions of this Agreement, Borrower may request Advances in an aggregate outstanding amount not to exceed the lesser of (i) the Revolving Line or (ii) the Borrowing Base. Subject to the terms and conditions of this Agreement, amounts borrowed pursuant to this Section 2.1(a) may be repaid and reborrowed at any time prior to the Revolving Maturity Date, at which time all Advances under this Section 2.1(a) shall be immediately due and payable. Borrower may prepay any Advances without penalty or premium.

(ii) Whenever Borrower desires an Advance, Borrower will notify Bank by email, facsimile transmission or telephone no later than 2:00 p.m. Pacific Time, on the Business Day that is one day before the Business Day the Advance is to be made in substantially the form of **Exhibit B** hereto. Each such notification shall be promptly confirmed by a Borrowing Base Certificate in substantially the form of **Exhibit C** hereto. Bank is authorized to make Advances under this Agreement, based upon instructions received from a Responsible Officer or a designee of a Responsible Officer. Bank shall be entitled to rely on any email or telephonic notice given by a person who Bank reasonably believes to be a Responsible Officer or a designee thereof, and Borrower shall indemnify and hold Bank harmless for any damages or loss suffered by Bank as a result of such reliance. Bank will credit the amount of Advances made under this Section to such Borrower's deposit account as Borrower may designate.

2.2 Overadvances. If the aggregate amount of the outstanding Advances exceeds the lesser of the Revolving Line or the Borrowing Base at any time, Borrower shall promptly pay to Bank, in cash, the amount of such excess.

2.3 Interest Rate, Payments, and Calculations.

(a) **Interest Rate.** Except as set forth in Section 2.3(b), the Advances shall bear interest, on the outstanding Daily Balance thereof, at a rate equal to one percent (1.0%) above the Prime Rate.

(b) **Late Fee; Default Rate.** If any payment is not made within ten (10) days after the date such payment is due, Borrower shall pay Bank a late fee equal to the lesser of (i) three percent (3%) of the amount of such unpaid amount or (ii) the maximum amount permitted to be charged under applicable law. Upon notice from Bank (which notice may be retroactive to the date of the applicable Event of Default) all Obligations shall bear interest, from and after the occurrence and during the continuance of an Event of Default, at a rate equal to three (3) percentage points above the interest rate applicable immediately prior to the occurrence of the Event of Default.

(c) **Payments.** Interest hereunder shall be due and payable on the first business day of each month during the term hereof. Bank shall, at its option, charge such interest, and all Periodic Payments when due against any of Borrower's deposit accounts or against the Revolving Line, in which case those amounts shall thereafter accrue interest at the rate then applicable hereunder. Any interest not paid when due shall be compounded by becoming a part of the Obligations, and such interest shall thereafter accrue interest at the rate then applicable hereunder. All payments shall be free and clear of any taxes, withholdings, duties, impositions or other charges (excluding taxes on Bank's income generally and withholding taxes, if any, arising under the Foreign Account Tax Compliance Act), other than Excluded Taxes, to the end that Bank will receive the entire amount of any Obligations payable hereunder, regardless of source of payment.

(d) Reserved.

(e) **Computation.** In the event the Prime Rate is changed from time to time hereafter, the applicable rate of interest hereunder shall be increased or decreased, effective as of the day the Prime Rate is changed, by an amount equal to such change in the Prime Rate. All interest chargeable under the Loan Documents shall be computed on the basis of a three hundred sixty (360) day year for the actual number of days elapsed.

2.4 Crediting Payments. Prior to the occurrence of an Event of Default, Bank shall credit a wire transfer of funds, check or other item of payment to such deposit account or Obligation as Borrower specifies. After the occurrence of an Event of Default, the receipt by Bank of any wire transfer of funds, check, or other item of payment shall be immediately applied to conditionally reduce Obligations, but shall not be considered a payment on account unless such payment is of immediately available federal funds or unless and until such check or other item of payment is honored when presented for payment. Notwithstanding anything to the contrary contained herein, any wire transfer or payment received by Bank after 1:00 p.m. Pacific Time shall be deemed to have been received by Bank as of the opening of business on the immediately following Business Day. Whenever any payment to Bank under the Loan Documents would otherwise be due (except by reason of acceleration) on a date that is not a Business Day, such payment shall instead be due on the next Business Day, and additional fees or interest, as the case may be, shall accrue and be payable for the period of such extension.

2.5 Fees. Borrower shall pay to Bank the following:

(a) **Facility Fees.** (i) On the Closing Date, a facility fee with respect to the Revolving Facility equal to \$45,000, which shall be nonrefundable and (ii) so long as the Revolving Facility is then in effect, on the first anniversary thereof, a facility fee with respect to the Revolving Facility equal to \$30,000, which shall be nonrefundable; and

(b) **Bank Expenses.** On the Closing Date, all Bank Expenses incurred through the Closing Date, including reasonable attorneys' fees and expenses and, after the Closing Date, all Bank Expenses, including reasonable attorneys' fees and expenses, as and when they are invoiced by Bank.

2.6 Term. This Agreement shall become effective on the Closing Date and, subject to Section 12.7, shall continue in full force and effect for so long as any Obligations remain outstanding or Bank has any obligation to make Credit Extensions under this Agreement. Notwithstanding the foregoing, Bank shall have the right to terminate its obligation to make Credit Extensions under this Agreement immediately upon notice of the occurrence and during the continuance of an Event of Default (but no notice is required for an Event of Default under Section 8.5). Notwithstanding termination, Bank's Lien on the Collateral shall remain in effect for so long as any Obligations are outstanding.

3. CONDITIONS OF LOANS.

3.1 Conditions Precedent to Initial Credit Extension. The obligation of Bank to make the initial Credit Extension is subject to the condition precedent that Bank shall have received, in form and substance satisfactory to Bank, the following:

- (a) this Agreement;
 - (b) a certificate of the Secretary of Borrower with respect to incumbency and resolutions authorizing the execution and delivery of this Agreement;
 - (c) UCC National Form Financing Statement;
 - (d) an intellectual property security agreement from Borrower and each of its Subsidiaries;
 - (e) a warrant to purchase stock;
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Guaranty Documents;

Bank;

- (f) a Guaranty;
- (g) resolutions from each of Borrower's subsidiaries authorizing the execution and delivery of the
- (h) a Third Party Security Agreement;
- (i) an intercreditor agreement executed by Bison Capital Partners IV, L.P. in a form acceptable to
- (j) certificate(s) of insurance naming Bank as loss payee and additional insured;
- (k) payment of the fees and Bank Expenses then due specified in Section 2.5 hereof;
- (l) current financial statements of Borrower;
- (m) an audit of the Collateral, the results of which shall be satisfactory to Bank; and
- (n) such other documents, and completion of such other matters, as Bank may reasonably deem necessary or appropriate.

3.2 Conditions Precedent to all Credit Extensions. The obligation of Bank to make each Credit Extension, including the initial Credit Extension, is further subject to the following conditions:

- (a) timely receipt by Bank of the Payment/Advance Form as provided in Section 2.1; and
- (b) the representations and warranties contained in Section 5 shall be true and correct in all material respects on and as of the date of Borrower's request for such Credit Extension and on the effective date of each Credit Extension as though made at and as of each such date, and no Event of Default shall have occurred and be continuing, or would exist after giving effect to such Credit Extension. The making of each Credit Extension shall be deemed to be a representation and warranty by Borrower on the date of such Credit Extension as to the accuracy of the facts referred to in this Section 3.2; and
- (c) in Bank's sole discretion, a Material Adverse Effect has not occurred.

3.3 Post Closing Conditions.

- (a) Within thirty (30) days after the Closing Date, Bank shall have received, in form and substance satisfactory to Bank, the good standing certificate of Borrower certified by the Secretary of State of Delaware as of a date no earlier than thirty (30) days prior to the Closing Date;
 - (b) Within thirty (30) days after the Closing Date and in any event prior to the initial Credit Extension, Bank shall have received, in form and substance satisfactory to bank, evidence that the Lien securing Enerpath Services, Inc.'s Indebtedness to New Resource Bank has been terminated and the documents and/or filings evidencing the perfection of such Lien are terminated; and
 - (c) Within ninety (90) days after the Closing Date and in any event prior to the initial Credit Extension, Bank shall have received, in form and substance satisfactory to Bank, account control agreement(s) pursuant to Section 6.8, if any, along with evidence of sweep instructions with respect to each of Borrower's accounts other than the Morgan Stanley Account and the Northern Trust Account; provided, however, so long as no Event of Default has occurred and is continuing, such sweep instructions may be for only all amounts in excess of \$500,000 held at American Charter Bank and all amounts in excess of \$750,000 held at New Resources Bank.
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4. CREATION OF SECURITY INTEREST.

4.1 Grant of Security Interest. Borrower grants and pledges to Bank a continuing security interest in all presently existing and hereafter acquired or arising Collateral in order to secure prompt repayment of any and all Obligations and in order to secure prompt performance by Borrower of each of its covenants and duties under the Loan Documents. Such security interest constitutes a valid, first priority security interest in the presently existing Collateral, and will constitute a valid, first priority security interest in Collateral acquired after the date hereof.

4.2 Delivery of Additional Documentation Required. Borrower shall from time to time execute and deliver to Bank, at the request of Bank, all Negotiable Collateral, all financing statements and other documents that Bank may reasonably request, in form satisfactory to Bank, to perfect and continue the perfection of Bank's security interests in the Collateral and in order to fully consummate all of the transactions contemplated under the Loan Documents. Borrower from time to time may deposit with Bank specific time deposit accounts to secure specific Obligations.

4.3 Right to Inspect. Bank (through any of its officers, employees, or agents) shall have the right, upon reasonable prior notice, from time to time during Borrower's usual business hours but no more than twice a year (unless an Event of Default has occurred and is continuing), to inspect Borrower's Books and to make copies thereof and to check, test, and appraise the Collateral in order to verify Borrower's financial condition or the amount, condition of, or any other matter relating to, the Collateral.

5. REPRESENTATIONS AND WARRANTIES.

Borrower represents and warrants as follows:

5.1 Due Organization and Qualification. Borrower and each Subsidiary is a corporation or limited liability company duly existing under the laws of its state of incorporation or formation and qualified and licensed to do business in any state in which the conduct of its business or its ownership of property requires that it be so qualified, except with respect to qualification where the failure to be so qualified would not reasonably be expected to result in a Material Adverse Effect.

5.2 Due Authorization; No Conflict. The execution, delivery, and performance of the Loan Documents are within Borrower's powers, have been duly authorized, and are not in conflict with nor constitute a breach of any provision contained in Borrower's Certificate of Incorporation or Bylaws, nor will they constitute an event of default under any material agreement to which Borrower is a party or by which Borrower is bound. Borrower is not in default under any material agreement to which it is a party or by which it is bound except to the extent such default would not reasonably be expected to result in a Material Adverse Effect.

5.3 No Prior Encumbrances. Borrower has good and marketable title to its property, free and clear of Liens, except for Permitted Liens.

5.4 Bona Fide Eligible Accounts. The Eligible Accounts are bona fide existing obligations. The property and services giving rise to such Eligible Accounts has been delivered or rendered to the account debtor or to the account debtor's agent for immediate and unconditional acceptance by the account debtor. Borrower has not received notice of actual or imminent Insolvency Proceeding of any account debtor that is included in any Borrowing Base Certificate as an Eligible Account.

5.5 Merchantable Inventory. All Inventory is in all material respects of good and marketable quality, free from all material defects, except for Inventory for which adequate reserves have been made.

5.6 Intellectual Property. Borrower is the sole owner or valid licensee of the material Intellectual Property, except for non-exclusive licenses granted by Borrower to its customers in the ordinary course of business. Each of the Patents is valid and enforceable, and no part of the Intellectual Property has been judged invalid or unenforceable, in whole or in part, and no claim has been made that any part of the Intellectual Property violates the rights of any third party, except where the foregoing would not reasonably be expected to result in a Material Adverse Effect. Except as set forth in the Schedule, Borrower's rights as a licensee of intellectual property do not give rise to

more than five percent (5%) of its gross revenue in any given month, including without limitation revenue derived from the sale, licensing, rendering or disposition of any product or service. Borrower is not a party to, or bound by, any agreement that restricts the grant by Borrower of a security interest in Borrower's rights under such agreement except for customary anti-assignment provisions.

5.7 Name; Location of Chief Executive Office. Except as disclosed in the Schedule, Borrower has not done business under any name other than that specified on the signature page hereof; or, in the past five (5) years, changed its jurisdiction of formation, corporate structure, organizational type, or any organizational number assigned by its jurisdiction. As of the date of this Agreement, the chief executive office of Borrower is located at the address indicated in Section 10 hereof. As of the date of this Agreement, all Borrower's Inventory and Equipment is located only at the location set forth in Section 10 hereof except for goods in transit.

5.8 Litigation. Except as set forth in the Schedule, as of the date of this Agreement, there are no actions or proceedings pending by or against Borrower or any Subsidiary before any court or administrative agency.

5.9 No Material Adverse Change in Financial Statements. All consolidated and consolidating financial statements related to Borrower and any Subsidiary that Bank has received from Borrower fairly present in all material respects Borrower's financial condition as of the date thereof and Borrower's consolidated and consolidating results of operations for the period then ended. There has not been a material adverse change in the consolidated or the consolidating financial condition of Borrower since the date of the most recent of such financial statements submitted to Bank.

5.10 Solvency, Payment of Debts. Borrower is solvent and able to pay its debts (including trade debts) as they mature.

5.11 Regulatory Compliance. Borrower and each Subsidiary have met the minimum funding requirements of ERISA with respect to any employee benefit plans subject to ERISA, and no event has occurred resulting from Borrower's failure to comply with ERISA that could result in a Material Adverse Effect. Borrower is not an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940, as amended. Borrower is not engaged principally, or as one of the important activities, in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulations T and U of the Board of Governors of the Federal Reserve System). Except where the failure to do so would not reasonably be expected to result in a Material Adverse Effect, Borrower and each Subsidiary have complied with all the provisions of the Federal Fair Labor Standards Act. Borrower and each Subsidiary have not violated in any material respect any material statutes, laws, ordinances or rules applicable to it.

5.12 Environmental Condition. None of Borrower's or any Subsidiary's properties or assets has ever been used by Borrower or any Subsidiary or, to the best of Borrower's knowledge, by previous owners or operators, in the disposal of, or to produce, store, handle, treat, release, or transport, any hazardous waste or hazardous substance other than in material compliance with applicable law; to the best of Borrower's knowledge, none of Borrower's current properties or assets has ever been designated or identified pursuant to any environmental protection statute as a hazardous waste or hazardous substance disposal site in material violation of environmental laws, or a candidate for closure pursuant to any environmental protection statute except, in the case of each of the foregoing, where such event or condition would not reasonably be expected to result in a Material Adverse Effect. No lien arising under any environmental protection statute has attached to any revenues or to any real or personal property owned by Borrower or any Subsidiary; and, as of the date of this Agreement, neither Borrower nor any Subsidiary has received a summons, citation, notice, or directive from the United States Environmental Protection Agency or any other federal, state or other governmental agency concerning any action or omission by Borrower or any Subsidiary resulting in the releasing, or otherwise disposing of hazardous waste or hazardous substances into the environment, which remains unresolved.

5.13 Taxes. Borrower and each Subsidiary have filed or caused to be filed all material tax returns required to be filed (pursuant to due extensions or otherwise), and have paid, or have made adequate provision for the payment of, all material taxes reflected therein.

5.14 Investments. Neither Borrower nor any Subsidiary owns any stock, partnership interest or other equity securities of any Person, except for Permitted Investments.

5.15 Government Consents. Borrower and each Subsidiary have obtained all material consents, approvals and authorizations of, made all material declarations or filings with, and given all material notices to, all governmental authorities that are necessary for the continued operation of Borrower's business as currently conducted.

5.16 Kiphart Indebtedness. Neither Borrower nor any Subsidiary has Indebtedness owing to Richard P. Kiphart.

5.17 Full Disclosure. No representation, warranty or other statement made by Borrower in any certificate or written statement furnished to Bank, as of the date furnished, contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained in such certificates or statements, together with other information provided to Bank, not misleading in light of the circumstances under which they were delivered.

6. AFFIRMATIVE COVENANTS.

Borrower shall do all of the following:

6.1 Good Standing. Borrower shall maintain its and each of its Subsidiaries' corporate existence and good standing in its jurisdiction of incorporation and maintain qualification in each jurisdiction in which it is required under applicable law, in the case where the failure to do so would reasonably be expected to result in a Material Adverse Effect. Borrower shall maintain, and shall cause each of its Subsidiaries to maintain, in force all licenses, approvals and agreements, the loss of which could have a Material Adverse Effect.

6.2 Government Compliance. Borrower shall meet, and shall cause each Subsidiary to meet, the minimum funding requirements of ERISA with respect to any employee benefit plans subject to ERISA. Borrower shall comply, and shall cause each Subsidiary to comply, with all statutes, laws, ordinances and government rules and regulations to which it is subject, noncompliance with which could have a Material Adverse Effect.

6.3 Financial Statements, Reports, Certificates. Borrower shall deliver the following to Bank:

(a) on the 15th and last day of each month (or the next following Business Day if the 15th or last day is a non-Business Day), (i) aged listings of accounts receivable and accounts payable, (ii) a deferred revenue listing, (iii) sales journals, (iv) cash receipts journal, and (v) a Borrowing Base Certificate signed by a Responsible Officer in substantially the form of **Exhibit C** hereto; provided, that the Borrower may redact such personal information of its customers as is required by its customer contracts while preparing the reports required by this Section 6.3(a);

(b) as soon as available, but in any event within forty-five (45) days after the end of each quarter, a Borrower prepared consolidated balance sheet, income, and cash flow statement covering Borrower's consolidated operations during such quarter, prepared in accordance with GAAP, consistently applied, in a form acceptable to Bank along with a Compliance Certificate signed by a Responsible Officer in substantially the form of **Exhibit D** hereto;

(c) as soon as available, but in any event within one hundred twenty (120) days after the end of Borrower's fiscal year, audited consolidated financial statements of Borrower prepared in accordance with GAAP, consistently applied, together with an unqualified opinion (except for qualifications relating to the term of this Agreement) on such financial statements of an independent certified public accounting firm reasonably acceptable to Bank;

(d) copies of all statements, reports and notices sent or made available generally by Borrower to any holders of Subordinated Debt and, if applicable, all reports on Forms 10-K and 10-Q filed with the Securities and Exchange Commission;

(e) promptly upon receipt of notice thereof (but in any event no later than the date that the next financial statements are required to be delivered pursuant to clause (b) above), a report of any legal actions pending or threatened against Borrower or any Subsidiary that could reasonably be expected to result in damages or costs to Borrower or any Subsidiary of \$100,000 or more, or any commercial tort claim (as defined in the Code) acquired by Borrower;

(f) as soon as available, but in any event no later than thirty (30) days after the beginning of Borrower's next fiscal year, annual operating projections (including income statements, balance sheets and cash flow statements presented in a monthly format) for the upcoming fiscal year, in form and substance reasonably satisfactory to Bank; and

(g) such budgets, sales projections, operating plans, other financial information including information related to the verification of Borrower's Accounts as Bank may reasonably request from time to time.

6.4 Audits. Bank shall have a right from time to time hereafter to audit Borrower's Accounts and appraise Collateral at Borrower's expense, provided that such audits will be conducted no more often than every six (6) months unless an Event of Default has occurred and is continuing.

6.5 Inventory; Returns. Borrower shall keep all Inventory in good and marketable condition, free from all material defects except for Inventory for which adequate reserves have been made. Returns and allowances, if any, as between Borrower and its account debtors shall be on substantially the same basis and substantially in accordance with the usual customary practices of Borrower, as they exist at the time of the execution and delivery of this Agreement. Borrower shall promptly notify Bank of all returns and recoveries and of all disputes and claims, where the return, recovery, dispute or claim involves more than Fifty Thousand Dollars (\$50,000).

6.6 Taxes. Borrower shall make, and shall cause each Subsidiary to make, due and timely payment or deposit of all material federal, state, and local taxes, assessments, or contributions required of it by law, and will execute and deliver to Bank, on demand, appropriate certificates attesting to the payment or deposit thereof; and Borrower will make, and will cause each Subsidiary to make, timely payment or deposit of all material tax payments and withholding taxes required of it by applicable laws, including, but not limited to, those laws concerning F.I.C.A., F.U.T.A., state disability, and local, state, and federal income taxes, and will, upon request, furnish Bank with proof reasonably satisfactory to Bank indicating that Borrower or a Subsidiary has made such payments or deposits; provided that Borrower or a Subsidiary need not make any payment if the amount or validity of such payment is contested in good faith by appropriate proceedings and is reserved against (to the extent required by GAAP) by Borrower.

6.7 Insurance.

(a) Borrower, at its expense, shall keep the Collateral insured against loss or damage by fire, theft, explosion, sprinklers, and all other hazards and risks, and in such amounts, as ordinarily insured against by other owners in similar businesses conducted in the locations where Borrower's business is conducted on the date hereof. Borrower shall also maintain insurance relating to Borrower's business, ownership and use of the Collateral in amounts and of a type that are customary to businesses similar to Borrower's.

(b) All such policies of insurance shall be in such form, with such companies, and in such amounts as are reasonably satisfactory to Bank. All such policies of property insurance shall contain a lender's loss payable endorsement, in a form reasonably satisfactory to Bank, showing Bank as an additional loss payee thereof, and all liability insurance policies shall show the Bank as an additional insured and shall specify that the insurer must give at least twenty (20) days notice to Bank before canceling its policy for any reason (except 10 days, in the case of non-payment). Upon Bank's request, Borrower shall deliver to Bank certified copies of such policies of insurance and evidence of the payments of all premiums therefor. All proceeds payable under any such policy (except to the extent required to be paid by third parties) shall, at the option of Bank, be payable to Bank to be applied on account of the Obligations.

6.8 Operating, Depository and Investment Accounts. For each Account other than the Morgan Stanley Account and the Northern Trust Account that Borrower maintains outside of Bank and that maintains an average daily balance of more than One Hundred Thousand Dollars (\$100,000) in the aggregate with any other accounts for which there is no control agreement Borrower shall cause the applicable bank or financial institution at or with which any such account is maintained to execute and deliver an account control agreement or other appropriate instrument in form and substance satisfactory to Bank.

6.9 Financial Covenants.

(a) **Asset Coverage Ratio.** Borrower and its Subsidiaries, on a consolidated basis, shall maintain a minimum ratio of (i) unrestricted cash at Bank or in Accounts for which there is an account control agreement in favor of Bank, plus all Eligible Accounts and Non-Utility Accounts to (ii) the principal amount of the Obligations owing to Bank of at least 1.25 to 1.00, measured as of the last day of each month.

(b) **EBITDA.** Borrower and its Subsidiaries, on a consolidated basis, shall maintain (i) a rolling 6-month EBITDA, measured as of the last day of each quarter, of at least \$2,500,000 for the quarter ending September 30, 2015, and \$3,500,000 for the quarter ending December 31, 2015, and (ii) a rolling 4-quarter EBITDA, measured as of the last day of each quarter, of at least \$6,276,000 for the quarter ending March 31, 2016, \$6,738,000 for the quarter ending June 30, 2016, \$7,416,000 for the quarter ending September 30, 2016, and \$8,000,000 for the quarter ending December 31, 2016. Borrower and Bank shall agree by January 15, 2017 on the appropriate standard for each quarter of 2017, based on projections delivered by Borrower to Bank, provided that if they do not agree, then all amounts outstanding under this Agreement shall become due and payable on March 31, 2017.

6.10 Intellectual Property Rights.

(a) Protect, defend and maintain the validity and enforceability of its Intellectual Property except where the failure to do so would not reasonably be expected to result in a Material Adverse Effect; (ii) promptly (but in any event no later than the date that Borrower is required to deliver its financial statements pursuant to Section 6.3(b)) advise Bank in writing of material infringements of its material Intellectual Property; and (iii) not allow any Intellectual Property material to Borrower's business to be abandoned, forfeited or dedicated to the public.

(b) Borrower shall promptly (but in any event no later than the date that Borrower is required to deliver its financial statements pursuant to Section 6.3(b)) give Bank written notice of any applications or registrations of intellectual property rights filed with the United States Patent and Trademark Office, including the date of such filing and the registration or application numbers, if any. Borrower shall (i) give Bank prompt written notice (and in any case no later than 5 days after filing) of the filing of any applications or registrations with the United States Copyright Office, including the title of such intellectual property rights to be registered, as such title will appear on such applications or registrations, and the date such applications or registrations will be filed, and (ii) promptly upon Bank's request shall execute such documents as Bank may reasonably request for Bank to maintain its perfection in such intellectual property rights to be registered by Borrower, and upon the request of Bank, shall file such documents simultaneously with the filing of any such applications or registrations. Upon filing any such applications or registrations with the United States Copyright Office, Borrower shall provide Bank with (i) a copy of such applications or registrations, without the exhibits, if any, thereto, (ii) evidence of the filing of any documents requested by Bank to be filed for Bank to maintain the perfection and priority of its security interest in such intellectual property rights, and (iii) the date of such filing.

(c) Bank may audit Borrower's Intellectual Property to confirm compliance with this Section, provided such audit may not occur more often than twice per year, unless an Event of Default has occurred and is continuing. Bank shall have the right, but not the obligation, to take, at Borrower's sole expense, any actions that Borrower is required under this Section to take but which Borrower fails to take, after 15 days' notice to Borrower. Borrower shall reimburse and indemnify Bank for all reasonable costs and reasonable expenses incurred in the reasonable exercise of its rights under this Section.

6.11 Further Assurances. At any time and from time to time Borrower shall execute and deliver such further instruments and take such further action as may reasonably be requested by Bank to effect the purposes of this Agreement.

6.12 Landlord Waivers. Borrower shall use commercially reasonable efforts to deliver to Bank landlord waivers in respect of the premises at 3 Convery Blvd., Suite 600, Woodbridge, NJ 07095 and 16810 Kenton Dr., Suite 240, Huntersville, NC 28078. In the event that Borrower, after the Closing Date, intends to add any new offices or business locations, then Borrower shall use commercially reasonable efforts to deliver to Bank a landlord waiver prior to the addition of any such new office or business location.

6.13 Delivery on non-Business Day. If any certificates, documents or information hereunder is required to be delivered on a non-Business Day, it shall instead be due on the immediately following Business Day.

6.14 Formation or Acquisition of Subsidiaries. Notwithstanding and without limiting the negative covenants contained in Sections 7.3 and 7.7 hereof, at the time that Borrower or any guarantor forms any direct or indirect Subsidiary or acquires any direct or indirect Subsidiary after the Effective Date, Borrower and such guarantor shall (a) cause such new Subsidiary to provide to Bank a joinder to the Guaranty, together with such appropriate financing statements and/or Control Agreements, all in form and substance satisfactory to Bank (including being sufficient to grant Bank a first priority Lien (subject to Permitted Liens) in and to the assets of such newly formed or acquired Subsidiary), (b) provide to Bank appropriate certificates and powers and financing statements, pledging all of the direct or beneficial ownership interest in such new Subsidiary, in form and substance satisfactory to Bank, and (c) provide to Bank all other documentation in form and substance satisfactory to Bank that Bank reasonably requests, which in its opinion is appropriate with respect to the execution and delivery of the applicable documentation referred to above; provided, however, that solely in the circumstance in which Borrower or any guarantor forms any direct or indirect foreign Subsidiary or acquires any direct or indirect foreign Subsidiary, (i) such foreign Subsidiary shall not be required to guarantee the Obligations of Borrower under the Loan Documents and grant a continuing pledge and security interest in and to the assets of such foreign Subsidiary, and (ii) Borrower shall not be required to grant and pledge to Bank a perfected security interest in more than sixty-five percent (65%) of the stock, units or other evidence of ownership of such foreign Subsidiary, if Borrower demonstrates to the reasonable satisfaction of Bank that such foreign Subsidiary providing such guarantee or pledge and security interest or Borrower providing a perfected security interest in more than sixty-five percent (65%) of the stock, units or other evidence of ownership would create a present and existing adverse tax consequence to Borrower under the IRC. Any document, agreement, or instrument executed or issued pursuant to this Section 6.14 shall be a Loan Document.

7. NEGATIVE COVENANTS.

Borrower will not do any of the following:

7.1 Dispositions. Convey, sell, lease, transfer or otherwise dispose of (collectively, a "Transfer"), or permit any of its Subsidiaries to Transfer, all or any part of its business or property, other than: (i) Transfers of Inventory in the ordinary course of business; (ii) Transfers of non-exclusive licenses and similar arrangements for the use of the property of Borrower or its Subsidiaries in the ordinary course of business; or (iii) Transfers of worn-out or obsolete Equipment or Equipment no longer used in the business, in each case, which was not financed by Bank; (iv) investments and distributions permitted hereunder; (v) subleases and sublicenses in the ordinary course of business; (vi) Transfers of assets acquired in connection with a permitted acquisition to the extent that such assets were not material or necessary for the business acquired; (vii) Transfers among the Borrower and its Subsidiaries; and (viii) other Transfers of assets in an aggregate amount (as reflected on the consolidated balance sheet of the Borrower and its Subsidiaries) not exceeding \$100,000.

7.2 Change in Business; Change in Control or Executive Office. Engage in any business, or permit any of its Subsidiaries to engage in any business, other than the businesses currently engaged in by Borrower and its Subsidiaries and any business substantially similar or related thereto (or incidental thereto); cease to conduct business in the manner conducted by Borrower as of the Closing Date; or suffer or permit a Change in Control; or without thirty (30) days prior written notification to Bank, relocate its chief executive office or state of incorporation or change its legal name; or without Bank's prior written consent, change the date on which its fiscal year ends.

7.3 Mergers or Acquisitions. Merge or consolidate, or permit any of its Subsidiaries to merge or consolidate, with or into any other business organization, or acquire, or permit any of its Subsidiaries to acquire, all or substantially all of the capital stock or property of another Person other than: (a) Permitted Acquisitions so long as (i) no Event of Default shall have occurred and be continuing or occur as a result thereof and (ii) the material assets so acquired shall be included as Collateral to secure the Obligations; and (b) mergers, consolidations and acquisitions among the Borrower and its Subsidiaries so long as with respect to any merger or consolidation involving the Borrower, the Borrower is the survivor.

7.4 Indebtedness. Create, incur, guarantee, assume or be or remain liable with respect to any Indebtedness, or permit any Subsidiary so to do, other than Permitted Indebtedness.

7.5 Encumbrances. Create, incur, assume or suffer to exist any Lien with respect to any of its property, or assign or otherwise convey any right to receive income, including the sale of any Accounts (other than in connection with a Permitted Transfer), or permit any of its Subsidiaries so to do, except for Permitted Liens, or enter into any agreement with any Person other than Bank not to grant a security interest in, or otherwise encumber, any of its property, or permit any Subsidiary to do so other than restrictions in agreements related to Permitted Liens that may prohibit additional Liens on the assets subject to such Permitted Liens.

7.6 Distributions. Pay any dividends or make any other distribution or payment on account of or in redemption, retirement or purchase of any capital stock of the Borrower, or permit any of its Subsidiaries to do so, except that Borrower may (a) repurchase the stock of former employees pursuant to stock repurchase agreements as long as an Event of Default does not exist prior to such repurchase or would not exist after giving effect to such repurchase, and the aggregate amount of such repurchase does not exceed \$100,000 in any fiscal year and (b) make distributions relating to Borrower's employee stock purchase plans.

7.7 Investments. Directly or indirectly acquire or own, or make any Investment in or to any Person, or permit any of its Subsidiaries to do so, other than Permitted Investments; to maintain or invest any of its Investment property using an account with a Person other than Bank and in which it maintains an average daily balance in excess of \$100,000, or permit any of its Subsidiaries to do so, unless such Person has entered into an account control agreement with Bank in form and substance satisfactory to Bank; or to suffer or permit any Subsidiary to be a party to, or be bound by, an agreement that restricts such Subsidiary from paying dividends or otherwise distributing property to Borrower.

7.8 Transactions with Affiliates. Directly or indirectly enter into or permit to exist any material transaction with any Affiliate of Borrower except for (a) transactions that are upon fair and reasonable terms that are no less favorable to Borrower than would be obtained in an arm's length transaction with a non-affiliated Person; (b) dividends, distributions and share repurchases permitted by this Agreement; and (c) Permitted Investments.

7.9 Subordinated Debt. Make any payment in respect of any Subordinated Debt, or permit any of its Subsidiaries to make any such payment, except in compliance with the terms of such Subordinated Debt.

7.10 Reserved.

7.11 Compliance. Become an “investment company” or be controlled by an “investment company,” within the meaning of the Investment Company Act of 1940, as amended, or become principally engaged in, or undertake as one of its important activities, the business of extending credit for the purpose of purchasing or carrying margin stock, or use the proceeds of any Credit Extension for such purpose. Fail to meet the minimum funding requirements of ERISA, permit a “reportable event” (other than an event for which the 30-day notice period is waived) or a non-exempt “prohibited transaction,” as each such term is defined in ERISA, to occur, fail to comply with the Federal Fair Labor Standards Act or violate any law or regulation, which violation could have a Material Adverse Effect, or a material adverse effect on the Collateral or the priority of Bank’s Lien on the Collateral, or permit any of its Subsidiaries to do any of the foregoing.

8. EVENTS OF DEFAULT.

Any one or more of the following events shall constitute an Event of Default by Borrower under this Agreement:

8.1 Payment Default. If Borrower fails to pay, when due, any of the Obligations;

8.2 Covenant Default.

(a) If Borrower fails to perform any obligation under Section 6 (other than Section 6.3) or violates any of the covenants contained in Section 7 of this Agreement or if Borrower fails to perform any obligation set forth in Section 6.3 within 10 Business Days of the date specified in Section 6.3; or

(b) If Borrower fails or neglects to perform or observe any other material term, provision, condition, covenant contained in this Agreement, in any of the Loan Documents, or in any other present or future agreement between Borrower and Bank and as to any default under such other term, provision, condition or covenant that can be cured, has failed to cure such default within ten days after Borrower receives notice thereof or any officer of Borrower becomes aware thereof; provided, however, that if the default cannot by its nature be cured within the ten Business Day period or cannot after diligent attempts by Borrower be cured within such ten Business Day period, and such default is likely to be cured within a reasonable time, then Borrower shall have an additional reasonable period (which shall not in any case exceed 30 days) to attempt to cure such default, and within such reasonable time period the failure to have cured such default shall not be deemed an Event of Default but no Credit Extensions will be made.

8.3 Material Adverse Effect. If there occurs any circumstance or circumstances that could have a Material Adverse Effect;

8.4 Attachment. If any portion of Borrower’s assets is attached, seized, subjected to a writ or distress warrant, or is levied upon, or comes into the possession of any trustee, receiver or person acting in a similar capacity appointed by a court or similar tribunal and such attachment, seizure, writ or distress warrant or levy has not been removed, discharged or rescinded within ten (10) days, or if Borrower is enjoined, restrained, or in any way prevented by court order from continuing to conduct all or any part of its business affairs, or if a notice of lien, levy, or assessment is filed of record with respect to any of Borrower’s assets by the United States Government, or any department, agency, or instrumentality thereof, or by any state, county, municipal, or governmental agency, and the same is not paid within ten (10) days after Borrower receives notice thereof, provided that none of the foregoing shall constitute an Event of Default where such action or event is stayed or an adequate bond has been posted pending a good faith contest by Borrower (provided that no Credit Extensions will be required to be made during such cure period);

8.5 Insolvency. If Borrower becomes insolvent, or if an Insolvency Proceeding is commenced by Borrower, or if an Insolvency Proceeding is commenced against Borrower and is not dismissed or stayed within thirty (30) days (provided that no Credit Extensions will be made prior to the dismissal of such Insolvency Proceeding);

8.6 Other Agreements. If there is a default or other failure to perform in any agreement to which Borrower is a party or by which it is bound resulting in a right by a third party or parties, whether or not exercised, to accelerate the maturity of any Indebtedness in an amount in excess of Two Hundred Fifty Thousand Dollars (\$250,000) or which could have a Material Adverse Effect;

8.7 Subordinated Debt. If Borrower makes any payment on account of Subordinated Debt, except to the extent the payment is allowed under any subordination agreement entered into with Bank;

8.8 Judgments. If a final judgment or judgments (other than in respect of the SEC Matter) for the payment of money in an amount not covered by insurance, individually or in the aggregate, of at least One Million Dollars (\$1,000,000) shall be rendered against Borrower and shall remain unsatisfied and unstayed for a period of twenty (20) days (provided that no Credit Extensions will be made prior to the satisfaction or stay of such judgment);

8.9 Misrepresentations. If any material misrepresentation or material misstatement exists now or hereafter at the time furnished to the Bank in any warranty or representation set forth herein or in any certificate delivered to Bank by any Responsible Officer pursuant to this Agreement or to induce Bank to enter into this Agreement or any other Loan Document; or

8.10 Guaranty. If any guaranty of all or a portion of the Obligations (a "Guaranty") ceases for any reason to be in full force and effect (except in accordance with its terms), or any guarantor fails to perform any obligation under any Guaranty or a security agreement securing any Guaranty (collectively, the "Guaranty Documents"), or any event of default occurs under any Guaranty Document or any guarantor revokes or purports to revoke a Guaranty, or any material misrepresentation or material misstatement exists now or hereafter at the time furnished to the Bank in any warranty or representation set forth in any Guaranty Document or in any certificate delivered to Bank in connection with any Guaranty Document, or if any of the circumstances described in Sections 8.3 through 8.8 occur with respect to any guarantor or any guarantor dies or becomes subject to any criminal prosecution.

9. BANK'S RIGHTS AND REMEDIES.

9.1 Rights and Remedies. Upon the occurrence and during the continuance of an Event of Default, Bank may, at its election, upon notice of its election but without demand, do any one or more of the following, all of which are authorized by Borrower:

(a) Declare all Obligations, whether evidenced by this Agreement, by any of the other Loan Documents, or otherwise, immediately due and payable (provided that upon the occurrence of an Event of Default described in Section 8.5, all Obligations shall become immediately due and payable without any action by Bank);

(b) Cease advancing money or extending credit to or for the benefit of Borrower under this Agreement or under any other agreement between Borrower and Bank;

(c) Make such payments and do such acts as Bank considers necessary or reasonable to protect its security interest in the Collateral. Borrower agrees to assemble the Collateral if Bank so requires, and to make the Collateral available to Bank as Bank may designate. Borrower authorizes Bank to enter the premises where the Collateral is located, to take and maintain possession of the Collateral, or any part of it, and to pay, purchase, contest, or compromise any encumbrance, charge, or lien which in Bank's determination appears to be prior or superior to its security interest and to pay all expenses incurred in connection therewith. With respect to any of Borrower's owned premises, Borrower hereby grants Bank a license to enter into possession of such premises and to occupy the same, without charge, in order to exercise any of Bank's rights or remedies provided herein, at law, in equity, or otherwise;

(d) Set off and apply to the Obligations any and all (i) balances and deposits of Borrower held by Bank, or (ii) indebtedness at any time owing to or for the credit or the account of Borrower held by Bank;

(e) Ship, reclaim, recover, store, finish, maintain, repair, prepare for sale, advertise for sale, and sell (in the manner provided for herein) the Collateral. Bank is hereby granted a license or other right, solely pursuant to the provisions of this Section 9.1, to use, without charge, Borrower's labels, patents, copyrights, rights of use of any name, trade secrets, trade names, trademarks, service marks, and advertising matter, or any property of a similar nature, as it pertains to the Collateral, in completing production of, advertising for sale, and selling any Collateral and, in connection with Bank's exercise of its rights under this Section 9.1, Borrower's rights under all licenses and all franchise agreements shall inure to Bank's benefit;

(f) Dispose of the Collateral by way of one or more contracts or transactions, for cash or on terms, in such manner and at such places (including Borrower's premises) as Bank determines is commercially reasonable, and apply any proceeds to the Obligations in whatever manner or order Bank deems appropriate;

(g) Bank may credit bid and purchase at any public sale; and

(h) Any deficiency that exists after disposition of the Collateral as provided above will be paid immediately by Borrower.

9.2 Power of Attorney. Effective only upon the occurrence and during the continuance of an Event of Default, Borrower hereby irrevocably appoints Bank (and any of Bank's designated officers, or employees) as Borrower's true and lawful attorney to: (a) send requests for verification of Accounts or notify account debtors of Bank's security interest in the Accounts; (b) notify all account debtors with respect to the Accounts to pay Bank directly; (c) sign Borrower's name on any invoice or bill of lading relating to any Account, drafts against account debtors, schedules and assignments of Accounts, verifications of Accounts, and notices to account debtors; (d) make, settle, and adjust all claims under and decisions with respect to Borrower's policies of insurance; (e) demand, collect, receive, sue, and give releases to any account debtor for the monies due or which may become due upon or with respect to the Accounts and to compromise, prosecute, or defend any action, claim, case or proceeding relating to the Accounts; (f) settle and adjust disputes and claims respecting the accounts directly with account debtors, for amounts and upon terms which Bank determines to be reasonable; (g) sell, assign, transfer, pledge, compromise, discharge or otherwise dispose of any Collateral; (h) receive and open all mail addressed to Borrower for the purpose of collecting the Accounts; (i) endorse Borrower's name on any checks or other forms of payment or security that may come into Bank's possession; (j) execute on behalf of Borrower any and all instruments, documents, financing statements and the like to perfect Bank's interests in the Accounts and Collections and file, in its sole discretion, one or more financing or continuation statements and amendments thereto, relative to any of the Collateral; and (k) do all acts and things necessary or expedient, in furtherance of any such purposes; provided however Bank may exercise such power of attorney with respect to any actions described in clause (j) above, regardless of whether an Event of Default has occurred. The appointment of Bank as Borrower's attorney in fact, and each and every one of Bank's rights and powers, being coupled with an interest, is irrevocable until all of the Obligations have been fully repaid and performed and Bank's obligation to provide Credit Extensions hereunder is terminated.

9.3 Accounts Collection. In addition to the foregoing, at any time after the occurrence of an Event of Default, Bank may notify any Person owing funds to Borrower of Bank's security interest in such funds and verify the amount of such Account. Borrower shall collect all amounts owing to Borrower for Bank, receive in trust all payments as Bank's trustee, and immediately deliver such payments to Bank in their original form as received from the account debtor, with proper endorsements for deposit.

9.4 Bank Expenses. If Borrower fails to pay any amounts or furnish any required proof of payment due to third persons or entities, as required under the terms of this Agreement, then Bank may do any or all of the following after reasonable notice to Borrower: (a) make payment of the same or any part thereof; (b) set up such reserves under a loan facility in Section 2.1 as Bank deems necessary to protect Bank from the exposure created by such failure; or (c) obtain and maintain insurance policies of the type discussed in Section 6.7 of this Agreement, and take any action with respect to such policies as Bank deems prudent. Any amounts so paid or deposited by Bank shall constitute Bank Expenses, shall be immediately due and payable, and shall bear interest at the then applicable rate hereinabove provided, and shall be secured by the Collateral. Any payments made by Bank shall not constitute an agreement by Bank to make similar payments in the future or a waiver by Bank of any Event of Default under this Agreement.

9.5 Bank's Liability for Collateral. So long as Bank complies with reasonable banking practices, Bank shall not in any way or manner be liable or responsible for: (a) the safekeeping of the Collateral; (b) any loss or damage thereto occurring or arising in any manner or fashion from any cause; (c) any diminution in the value thereof; or (d) any act or default of any carrier, warehouseman, bailee, forwarding agency, or other person whomsoever. All risk of loss, damage or destruction of the Collateral except as a result of Bank's gross negligence or willful misconduct shall be borne by Borrower.

9.6 Remedies Cumulative. Bank's rights and remedies under this Agreement, the Loan Documents, and all other agreements shall be cumulative. Bank shall have all other rights and remedies not inconsistent herewith as provided under the Code, by law, or in equity. No exercise by Bank of one right or remedy shall be deemed an election, and no waiver by Bank of any Event of Default on Borrower's part shall be deemed a continuing waiver. No delay by Bank shall constitute a waiver, election, or acquiescence by it. No waiver by Bank shall be effective unless made in a written document signed on behalf of Bank and then shall be effective only in the specific instance and for the specific purpose for which it was given.

9.7 Demand; Protest. Borrower waives demand, protest, notice of protest, notice of default or dishonor, notice of payment and nonpayment, notice of any default, nonpayment at maturity, release, compromise, settlement, extension, or renewal of accounts, documents, instruments, chattel paper, and guarantees at any time held by Bank on which Borrower may in any way be liable.

10. NOTICES.

Unless otherwise provided in this Agreement, all notices or demands by any party relating to this Agreement or any other agreement entered into in connection herewith shall be in writing and (except for financial statements and other informational documents which may be sent by first-class mail, postage prepaid) shall be personally delivered or sent by a recognized overnight delivery service, certified mail, postage prepaid, return receipt requested, or by email or telefacsimile to Borrower or to Bank, as the case may be, at its addresses set forth below:

If to Borrower: LIME ENERGY CO.
3 Convery Blvd., Suite 600
Woodbridge, NJ 07095
Attn: Colleen Brennan, Chief Financial Officer
FAX: (732) 791-5376
Phone: (732) 791-5390
Email: cbrennan@lime-energy.com

If to Bank: HERITAGE BANK OF COMMERCE
150 South Almaden Blvd.
San Jose, California 95113
Attn: Mike Hansen
FAX: (408) 947-6910
Email: Mike.Hansen@herbank.com

The parties hereto may change the address at which they are to receive notices hereunder, by notice in writing in the foregoing manner given to the other.

11. CHOICE OF LAW AND VENUE; JURY TRIAL WAIVER.

This Agreement shall be governed by, and construed in accordance with, the internal laws of the State of California, without regard to principles of conflicts of law. Each of Borrower and Bank hereby submits to the jurisdiction of the state and Federal courts located in the County of Santa Clara, State of California. **BORROWER AND BANK EACH HEREBY WAIVE THEIR RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF ANY OF THE LOAN DOCUMENTS OR ANY OF THE TRANSACTIONS CONTEMPLATED THEREIN, INCLUDING CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS, AND ALL OTHER COMMON LAW OR STATUTORY CLAIMS. EACH PARTY RECOGNIZES AND AGREES THAT THE FOREGOING WAIVER CONSTITUTES A MATERIAL**

INDUCEMENT FOR IT TO ENTER INTO THIS AGREEMENT. EACH PARTY REPRESENTS AND WARRANTS THAT IT HAS REVIEWED THIS WAIVER WITH ITS LEGAL COUNSEL AND THAT IT KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS FOLLOWING CONSULTATION WITH LEGAL COUNSEL.

If the jury waiver set forth in this Section is not enforceable, then any dispute, controversy or claim arising out of or relating to this Agreement, the Loan Documents or any of the transactions contemplated therein shall be settled by judicial reference pursuant to Code of Civil Procedure Section 638 et seq. before a referee sitting without a jury, such referee to be mutually acceptable to the parties or, if no agreement is reached, by a referee appointed by the Presiding Judge of the California Superior Court for Santa Clara County. This Section shall not restrict a party from exercising remedies under the Code or from exercising pre-judgment remedies under applicable law.

12. GENERAL PROVISIONS.

12.1 Successors and Assigns. This Agreement shall bind and inure to the benefit of the respective successors and permitted assigns of each of the parties; provided, however, that neither this Agreement nor any rights hereunder may be assigned by Borrower without Bank's prior written consent, which consent may be granted or withheld in Bank's sole discretion and provided, further, that except in connection with a merger of Bank or the sale of any substantial part of its assets, neither this Agreement nor any rights hereunder may be assigned by Bank without Borrower's prior written consent so long as no Event of Default shall have then occurred and be continuing. At any time that an Event of Default shall have occurred and be continuing, Bank shall have the right without the consent of or notice to Borrower to sell, transfer, negotiate, or grant participation in all or any part of, or any interest in, Bank's obligations, rights and benefits hereunder.

12.2 Indemnification. Borrower shall defend, indemnify and hold harmless Bank and its officers, employees, and agents against: (a) all obligations, demands, claims, and liabilities claimed or asserted by any other party in connection with the transactions contemplated by this Agreement; and (b) all losses or Bank Expenses in any way suffered, incurred, or paid by Bank as a result of or in any way arising out of, following, or consequential to transactions between Bank and Borrower whether under this Agreement, or otherwise (including without limitation reasonable attorneys' fees and expenses), except for losses caused by Bank's gross negligence or willful misconduct.

12.3 Time of Essence. Time is of the essence for the performance of all obligations set forth in this Agreement.

12.4 Severability of Provisions. Each provision of this Agreement shall be severable from every other provision of this Agreement for the purpose of determining the legal enforceability of any specific provision.

12.5 Amendments in Writing, Integration. Neither this Agreement nor the Loan Documents can be amended or terminated orally. All prior agreements, understandings, representations, warranties, and negotiations between the parties hereto with respect to the subject matter of this Agreement and the Loan Documents, if any, are merged into this Agreement and the Loan Documents.

12.6 Counterparts. This Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, shall be deemed to be an original, and all of which, when taken together, shall constitute but one and the same Agreement. In the event that any signature to this Agreement or any other Loan Document is delivered by facsimile transmission or by e-mail delivery of a ".pdf" format data file, such signature shall create a valid and binding obligation of the party executing (or on whose behalf such signature is executed) with the same force and effect as if such facsimile or ".pdf" signature page were an original thereof. Notwithstanding the foregoing, Borrower shall deliver all original signed documents requested by Bank no later than ten (10) Business Days following the Closing Date.

12.7 Survival. All covenants, representations and warranties made in this Agreement shall continue in full force and effect so long as any Obligations remain outstanding or Bank has any obligation to make Credit Extensions to Borrower. The obligations of Borrower to indemnify Bank with respect to the expenses,

damages, losses, costs and liabilities described in Section 12.2 shall survive until all applicable statute of limitations periods with respect to actions that may be brought against Bank have run.

12.8 Confidentiality. In handling any confidential information Bank and all employees and agents of Bank, including but not limited to accountants, shall exercise the same degree of care that it exercises with respect to its own proprietary information of the same types to maintain the confidentiality of any non-public information thereby received or received pursuant to this Agreement except that disclosure of such information may be made (i) to the subsidiaries or affiliates of Bank in connection with their present or prospective business relations with Borrower, (ii) to prospective transferees or purchasers of any interest in the loans, provided that they are similarly bound by confidentiality obligations, (iii) as required by law, regulations, rule or order, subpoena, judicial order or similar order, (iv) as may be required in connection with the examination, audit or similar investigation of Bank and (v) as Bank may determine in connection with the enforcement of any remedies hereunder. Confidential information hereunder shall not include information that either: (a) is in the public domain or in the knowledge or possession of Bank when disclosed to Bank, or becomes part of the public domain after disclosure to Bank through no fault of Bank; or (b) is disclosed to Bank by a third party, provided Bank does not have actual knowledge that such third party is prohibited from disclosing such information.

12.9 Patriot Act Notice. Bank hereby notifies Borrower that, pursuant to the requirements of the USA Patriot Act, Title III of Pub. L. 107-56 (signed into law on October 26, 2001) (the “Patriot Act”), it is required to obtain, verify and record information that identifies the Borrower, which information includes names and addresses and other information that will allow Bank, as applicable, to identify the Borrower in accordance with the Patriot Act.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date first above written.

“BORROWER”

LIME ENERGY CO.

By: /s/ Mary Colleen Brennan

Name: Mary Colleen Brennan

Title: Chief Financial Officer

“BANK”

HERITAGE BANK OF COMMERCE

By: /s/ Karla Schrader

Name: Karla Schrader

Title: VP

DEBTOR: LIME ENERGY CO.

SECURED PARTY: HERITAGE BANK OF COMMERCE

EXHIBIT A

**COLLATERAL DESCRIPTION ATTACHMENT
TO LOAN AND SECURITY AGREEMENT**

All personal property of Borrower (herein referred to as "Borrower" or "Debtor") whether presently existing or hereafter created or acquired, and wherever located, including, but not limited to:

(a) all accounts (including health-care-insurance receivables), chattel paper (including tangible and electronic chattel paper), commercial tort claims, deposit accounts, securities accounts, documents (including negotiable documents), equipment (including all accessions and additions thereto), general intangibles (including payment intangibles and software), goods (including fixtures), instruments (including promissory notes), inventory (including all goods held for sale or lease or to be furnished under a contract of service, and including returns and repossessions), investment property (including securities and securities entitlements), letter of credit rights, money, and all of Debtor's books and records with respect to any of the foregoing, and the computers and equipment containing said books and records;

(b) any and all cash proceeds and/or noncash proceeds of any of the foregoing, including, without limitation, insurance proceeds, and all supporting obligations and the security therefor or for any right to payment. All terms above have the meanings given to them in the California Uniform Commercial Code, as amended or supplemented from time to time.

Exhibit B



Loan Advance / Payment Request Form

FAX to Corporate Finance Division (408) 947-6910 or Email to: ABL@HERBANK.COM

The Deadline for an Advance Request is 11:00 AM

Client Name: _____	Date: _____	Time: _____
Requested By: _____ <small>(Authorized Signature)</small>	_____ <small>(Print Name)</small>	
Received from Client By: <input type="checkbox"/> Telephone <input type="checkbox"/> Email	<input type="checkbox"/> In Person <input type="checkbox"/> Fax	
Advances	Payments	
Amount Requested: _____	<input type="checkbox"/> Principal Reduction	<input type="checkbox"/> Regular Payment
Loan #: _____	<input type="checkbox"/> Regular Payment Plus Extra to Principal	
Credit Account: _____	Amount Requested: _____	Loan #: _____
Other: _____	Debit Account: _____	Other: _____
Comments: _____		
<i>Below For Bank Use Only</i>		
Revolving - Formula A/R LOC	Compliance Status:	
Borrowing Base <small>(Net L/C Hold if applicable)</small> : _____	Maturity: _____	
Current Loan Balance: _____	Risk Grade: _____	
Less Advance requested: _____	Reports: <input type="checkbox"/> OK <input type="checkbox"/> In Violation (See Comments)	
Less Other: _____	Covenant: <input type="checkbox"/> OK <input type="checkbox"/> In Violation (See Comments)	
Net Available Balance: _____	Number of Advances with Violations per month (Circle One)	1 2 3 4 5 6 7+
	Frozen: <input type="checkbox"/> Yes - Requires Credit Admin Approval <input type="checkbox"/> No	
Comments: _____		
	Block #: _____	LSS Initial: _____
Approvals For Funding:		
Compliance Credit Analyst	_____ (Signature)	
Account Officer	_____ (Signature)	
Regional Manager/Team Lead	_____ (Signature)	
Credit Administration	_____ (Signature)	

**EXHIBIT C
BORROWING BASE CERTIFICATE**

Borrower: LIME ENERGY CO. Lender: HERITAGE BANK OF COMMERCE
 Commitment Amount: \$6,000,000 Loan #:

ACCOUNTS RECEIVABLE	Period:	
1 Accounts Receivable Book Value as of:		\$0
2 Additions		\$0
3 Total Accounts Receivable:		\$0

ACCOUNTS RECEIVABLE DEDUCTIONS		
4 A/R Aged over 90 Days from invoice date		\$0
5 Contra Accounts		\$0
6 Concentrations	30%	\$0
7 Cross aging over	25%	\$0
8 Foreign Accounts (Net of >90s, w/out Insurance or LC)		\$0
9 United States Government Accounts (Net of >90s)		\$0
10 Affiliate/Employee Accounts (Net of >90s)		\$0
11 Over 90 credits		\$0
12 Other Deductions		\$0
13 Total Ineligible Accounts:		\$0
14 Total Eligible Accounts (#3 minus #13)		\$0
15 Advance Rate	85%	
16 Borrowing Base*		\$0

BALANCES		
17 Maximum Loan Amount	\$6,000,000	
18 Total Borrowing Capacity (lesser of #16 and #17)		\$0
19 Less: Present Balance owing on Line of Credit		\$0
20 Less: issued Letters of Credit or other balances		\$0
21 Remaining Availability (#18 minus #19 & #20)		\$0

COVENANT COMPLIANCE:	<u>Required</u>	<u>Actual</u>	<u>Complies?</u> <u>(Yes/No)</u>
Asset Coverage Ratio	1.25:1.0		
(Asset Coverage Ratio tested monthly on the last day of the month)			

*Borrowing Base = #14 multiplied by #15, plus the lesser of (a) Three Million Dollars (\$3,000,000) and (b) seventy percent (70%) of Eligible Accounts that are Non-Utility Accounts, minus (iii) an amount equal to Three Hundred Thirty Thousand Dollars (\$330,000) so long as the Permitted Indebtedness to Green Gas Americas, Inc. pursuant to that certain Unconditional Guaranty dated October 30, 2013 by Lime Energy Services, Co. remains outstanding.

If line #21 is a negative number, this amount must be remitted to the Bank immediately to bring loan balance into compliance.

The undersigned represents and warrants that the foregoing is true, complete and correct, and that the information reflected in this Borrowing Base Certificate complies with the representations and warranties set forth in the Loan and Security Agreement between the undersigned and HERITAGE BANK OF COMMERCE.

Borrower hereby requests funding in the amount of _____ in accordance with this Borrowing Base Certificate. All representations and warranties of Borrower stated in the Loan and Security Agreement are true, correct, and complete in all material respects as of the date of this Borrowing Base Certificate; provided that those representations and warranties expressly referring to another date shall be true, correct, and complete

in all material respects as of such date.

By (Authorized Signer):

Title:

Date:

Reviewed by Bank:

Title:

Date:

Borrowing Base Update:

Date of BBC:
BBC expiration date:
Current date:

BBC status: BBC expired - Do not Fund
Total Borrowing Capacity:
Outstanding Balance:
Remaining Availability:

Reviewed by:
Approved by:
Posted by:

Loan Advance:

Reporting in Compliance?
Covenant in Compliance?
If out of Compliance, what is the violation?

Yes / No
Yes / No

Loan Payment:

Type of Payment: Overadvance / Per client's request

Outstanding Loan Balance: \$0
Amount of Advance: (Must be equal or less than BBC Availability) \$0
Loan Account #: New
Deposit to DDA: Acct #: \$0

Outstanding Loan Balance: \$0
Amount of Payment: \$0
Loan Account #: New
Account to be charged: Acct #: \$0

New Outstanding Loan Balance: \$0

New Outstanding Loan Balance: \$0

**EXHIBIT D
COMPLIANCE CERTIFICATE**

TO: HERITAGE BANK OF COMMERCE

FROM: LIME ENERGY CO.

The undersigned authorized officer of LIME ENERGY CO. hereby certifies that in accordance with the terms and conditions of the Loan and Security Agreement between Borrower and Bank (the "Agreement"), (i) Borrower is in complete compliance for the period ending _____ with all required covenants except as noted below and (ii) all representations and warranties of Borrower stated in the Agreement are true and correct in all material respects as of the date hereof. Attached herewith are the required documents supporting the above certification. The Officer further certifies in his/her capacity as an officer of Borrower and not individually that these are prepared in accordance with Generally Accepted Accounting Principles (GAAP) and are consistently applied from one period to the next except as explained in an accompanying letter or footnotes.

Please indicate compliance status by circling Yes/No under "Complies" column.

<u>Reporting Covenant</u>	<u>Required</u>	<u>Complies</u>	
Sales journals, cash receipts journal	Semi-monthly on the 15 th and last day	Yes	No
A/R & A/P Agings + Borrowing Base Cert.	Semi-monthly on the 15 th and last day	Yes	No
Financial statements + Compliance Cert.	Quarterly within 45 days	Yes	No
Annual financial statements (CPA Audited)	FYE within 120 days	Yes	No
Annual operating projections	FYE within 30 days	Yes	No
10K and 10Q	(as applicable)	Yes	No
A/R Audit	Initial and semi-annual thereafter	Yes	No
IP Notices	As required under Section 6.10	Yes	No

<u>Financial Covenant</u>	<u>Required</u>	<u>Actual</u>	<u>Complies</u>	
Asset Coverage Ratio, measured monthly	1.25 : 1.00	: 1.00	Yes	No
Rolling 6-mo EBITDA, measured quarterly	*		Yes	No
Rolling 4-quarter EBITDA, measured quarterly	**		Yes	No

* \$2,500,000 9/30/15; \$3,500,000 12/31/15

** \$6,276,000 3/31/16; \$6,738,000 6/30/16; \$7,416,000 9/30/16; \$8,000,000 12/31/16

Comments Regarding Exceptions: See Attached.

BANK USE ONLY

Sincerely,

Received by: _____
AUTHORIZED SIGNER

Date: _____

SIGNATURE

Verified: _____
AUTHORIZED SIGNER

TITLE

Date: _____

Compliance Status Yes No

DATE

**SCHEDULE OF EXCEPTIONS
SCHEDULE OF EXCEPTIONS
TO
LIME ENERGY CO.
HERITAGE BANK OF COMMERCE
LOAN AND SECURITY AGREEMENT**

COMPANY SCHEDULES

This document and the attachments hereto (each of which is incorporated by reference herein) constitute the “Schedules of Exception” (the “Schedules”) referred to in that certain Loan and Security Agreement (the “Agreement”) dated as of July 24, 2015 by and among Lime Energy Co., a Delaware corporation (“Company”), and Heritage Bank of Commerce. All capitalized terms used but not herein defined shall have the respective meaning given to them in the Agreement.

Any matter described in any schedule to this Agreement shall be a disclosure only with respect to any other section or subsection if the applicability of such matter to such other section or subsection is apparent on its face.

These Schedules and all descriptions of documents contained herein are qualified in their entirety by reference to the documents so delivered. Matters reflected herein may not necessarily be limited to matters strictly required by the Agreement to be reflected in these Schedules. To the extent that any such additional matters are included, they are included solely for informational purposes, and shall not be deemed in any way to expand any of the information required to be disclosed in these Schedules or under the Agreement or to imply that other information with respect to similar matters must be disclosed.

The inclusion of any document or other item in these Schedules shall not constitute an admission by the Company that such document or other item is material or that a violation, right of termination, consent requirement, default, liability or contractual obligation of any kind exists with respect to such document or item. These Schedules are qualified in their entirety by reference to the specific provisions of the Agreement and the representations and warranties to which the disclosures herein pertain and are not intended to constitute, and shall not be construed as constituting, any separate representation or warranty of the Company, except as and to the extent expressly provided in these Schedules or the Agreement.

SCHEDULE 1.1

Permitted Indebtedness

“Permitted Indebtedness” includes, for purposes of subsection (b) to the definition, the following:

1. Indebtedness to Ally Financial for financing the purchase of four (4) utility program service vans. The combined monthly payment for all four vehicles is \$1,701 and is due each month through March 2020.
 2. Prior to December 31, 2015, Indebtedness to Green Gas Americas, Inc. in an amount not to exceed Three Hundred Thirty Thousand Dollars (\$330,000) pursuant to that certain Unconditional Guaranty dated October 30, 2013 by Lime Energy Services, Co.
-

SCHEDULE 1.1

Permitted Investments

None.

SCHEDULE 1.1Permitted Liens

<u>Entity/Subject Name</u>	<u>Jurisdiction</u>	<u>Other Party</u>	<u>File Date</u>	<u>File Type</u>	<u>File/Case/Book /Page #</u>
LIME ENERGY CO.	NC - SECRETARY OF STATE	CISCO SYSTEMS CAPITAL CRP	4/10/2012	Original UCC Filing	20120033526F
LIME ENERGY CO.	DE - SECRETARY OF STATE	ASCENTIUM CAPITAL LLC	6/29/2012	Original UCC Filing	20122515742
LIME ENERGY SERVICES CO. (permitted only through December 31, 2015)	MA - SECRETARY OF THE COMMONWEALTH, UCC DIVISION	GREEN GAS AMERICAS, INC.	11/4/2013	Original UCC Filing	201307841820
LANDMARK ELECTRICAL AND MECHANICAL SERVICES, LLC	NY — DEPARTMENT OF STATE, UCC DIVISION	BISON CAPITAL PARTNERS IV, LP	3/26/2015	Original UCC Filing	201503260149704
LIME ENERGY SERVICES CO.	MA - SECRETARY OF THE COMMONWEALTH, UCC DIVISION	BISON CAPITAL PARTNERS IV, LP	3/27/2015	Original UCC Filing	201518702350
LIME FINANCE, INC.	DE - SECRETARY OF STATE	BISON CAPITAL PARTNERS IV, LP	3/25/2015	Original UCC Filing	20151254795
LIME ENERGY CO.	DE - SECRETARY OF STATE	BISON CAPITAL PARTNERS IV, LP	3/25/2015	Original UCC Filing	20151254928
LIME ENERGY ASSET DEVELOPMENT, LLC	DE - SECRETARY OF STATE	BISON CAPITAL PARTNERS IV, LP	3/25/2015	Original UCC Filing	20151254977
ADVB ACQUISITION CORP.	DE - SECRETARY OF STATE	BISON CAPITAL PARTNERS IV, LP	3/25/2015	Original UCC Filing	20151255024
ENERPATH INTERNATIONAL HOLDING COMPANY	DE - SECRETARY OF STATE	BISON CAPITAL PARTNERS IV, LP	3/25/2015	Original UCC Filing	20151255594

ENERPATH SERVICES, INC.	MI — DEPARTMENT OF STATE, UCC SECTION	BISON CAPITAL PARTNERS IV, LP	3/26/2015	Original UCC Filing	2015040865-3
LANDMARK SERVICE COMPANY	NC - SECRETARY OF STATE	BISON CAPITAL PARTNERS IV, LP	3/26/2015	Original UCC Filing	20150027249C
ENERPATH, INC.	CA — SECRETARY OF STATE	BISON CAPITAL PARTNERS IV, LP	4/2/2015	Original UCC Filing	15-7458198927

SCHEDULE 5.6

Inbound Licenses

None.

SCHEDULE 5.7

Prior Names

Electric City Corp.

SCHEDULE 5.8

Litigation

SEC Investigation. The Securities and Exchange Commission is conducting an investigation of LEC's revenue recognition practices and financial reporting. On September 11, 2012, the Commission issued a subpoena for documents. On July 25, 2014, the Commission asked for some additional documentation and asked to schedule three interviews. The third and final interview was conducted on December 15, 2014. LEC is cooperating with the Commission's investigation. On March 9, 2015, Lime Energy received a subpoena from the SEC for all bonus, equity comp, and trading information for the CEO and CFO from March 11, 2009 (when the 2008 Form 10-K was filed) through May 13, 2013 (12 months after the 2012 Q1 Form 10-Q was filed). The deadline for this was March 22, 2015.

Kuberski v. Lime Energy Co. et al., Case No. 12-cv-7993 (N.D. Ill.): This is a putative shareholder derivative action alleging that LEC's officers and directors breached their fiduciary duties to LEC. Two derivative actions were filed, one in 2012 and one in 2013 and the cases were consolidated. On March 25, 2014, the Court granted Defendants' motion to dismiss with prejudice. The Court later denied Plaintiffs' Motion for Reconsideration on June 25, 2014. Plaintiffs had 30 days in which to file an appeal of the judge's ruling, however, the parties entered into mediation for settlement discussions and the court suspended the appeal process during the mediation settlement process. The parties are actively negotiating settlement terms. At this time it appears that most, if not all, of the settlement amount will likely be covered by insurance. On May 5, 2015, the United States District Court for the Northern District of Illinois issued an order granting preliminary approval of the proposed settlement by and among the Company, the plaintiffs and all named individual defendants in the Derivative Suit.

Dressler v. Lime Energy, United States District Court for the District of New Jersey, Case 3:14-cv-07060-FLW-DEA, filed November 10, 2014. This is a purported "whistleblower" case alleging illegal retaliation by "Lime Energy" for the plaintiff's alleged disclosure of activity she believed violated the Securities and Exchange Act of 1934. The plaintiff alleges that she made repeated disclosures to various individuals employed by "Lime Energy" that certain accounting practices were improper and could lead to a restatement of financial statements. Plaintiff filed her complaint pursuant to the Sarbanes Oxley Act of 2002 (18 U.S.C. §1514A), and the Dodd-Frank Wall Street Reform and Consumer Protection Act (15 U.S.C. §78u-6, et seq.) (together, the "Acts"). This case has been accepted for coverage under the Lime Executive Protection Portfolio Policy. On January 20, 2015, Lime's counsel filed a motion to dismiss Plaintiff's claim for failure to meet the definition of a "whistleblower" under the Dodd-Frank Act. Plaintiff opposed the motion, and on February 24, 2015, Lime's counsel filed its reply brief in support of the motion to dismiss. The parties are currently waiting for the court to rule.

EEOC Discrimination Complaint. Krystal Sawyer, An employment applicant in Ohio filed a complaint on July 31, 2014 against LESCO of discrimination in the hiring process with the Ohio Civil Rights Commission. That complaint was then transferred to the EEOC on September 18, 2014. The EEOC gave notice to LESCO in October 2014 that it is investigating whether or not a formal claim will be made against LESCO. A claim was made on LESCO's Executive Protection Portfolio Policy and counsel has been assigned. On January 20, 2015, LESCO's counsel sent a position statement to the EEOC stating that no discrimination occurred. LESCO is currently waiting for a response from the EEOC.

EEOC Discrimination Complaint. Kimberly Wasson, a former employee who was terminated for cause filed a complaint with the EEOC, on November 6, 2014, against LESCO for racial discrimination. A claim was made on LESCO's Executive Protection Portfolio Policy and counsel was assigned. This case was dismissed on February 26, 2015. Ms. Wasson had 90 days to file a lawsuit from this date which would have been May 15, 2015.

4tell Solutions, LP has initiated a breach of contract claim against the Company regarding monies due and owing for services in the amount of \$121,532.99.

The below pertains to EnerPath International Holding Company and its subsidiaries (references to the "Company" in such disclosure refer to EnerPath International Holding Company and/or its subsidiaries).

- Bridges/Lopez/Central Services: In 2013, two employees of Central Services, Inc., a subcontractor
-

to the Company, were injured while doing an installation for a customer of the Company's associated with the NYSEG/RGE Program/Iberdrola contract. Both employees used poor judgment in utilizing an unstable platform on a lift to reach a lighting fixture. The customer that was having the installation done provided the lift. Both employees fell a substantial distance and were injured. Mr. Lopez sustained extensive injuries and is permanently disabled. A suit was filed against Central Services, Inc. and the Company was named in the suit. The insurance carriers have been managing this claim for their clients. In January 2014, the Company received a notice that Central Services insurance would be taking over the claim/case and the Company would be indemnified. The claim has since been settled with Central Services with the Company's insurance carrier bearing only legal fees for defense. The Company reached out to its insurance carriers counsel for a status update on 3.3.15 and was verbally told that all that remains is to get a court certification of the settlement agreement. Since this incident, the Company has instituted the \$5,000,000 per occurrence total general liability limit requirement of their New York subcontractors. To date, all New York subs except one have complied by obtaining the \$5,000,000 limit. Currently the only exception is Triangle Electric, which has a limit of \$1,000,000 per occurrence, \$3,000,000 general aggregate and \$3,000,000 products/completed operations aggregate.

- Thomas Jones (Former Employee): Thomas Jones is a former employee who has filed a discrimination claim with the Equal Employment Opportunity Commission (the "EEOC"). The first demand letter was received by the Company on September 25, 2014 from Hoglin & Fuqua, LLP. Thomas Jones claims that his rights were violated when he was one of several employees laid off during a reduction in force. At the time, he was on an extended medical leave from a previous injury that is on file as being related to a previous employment period (not related to the Company). After the layoff, Mr. Jones filed a workman's compensation claim on the Company, which was later denied by Company's carrier. The Company has many documented inconsistencies with Mr. Jones' accounts and accusations. Mr. Marca has responded to two inquiries from each Hoglin & Fuqua, LLP and Mesriani Law Group. The Company responded directly to a request of information from a third law firm, Perona, Langer, Beck, Serbin, Mendoza and Harrison, consumer litigation attorneys. As of February 23, 2015, neither the Company nor its counsel has received any responses back from any of the three law firms. Mr. Marcus has provided the EEOC a Statement of Position, after the Company agreed to go through the EEOC mediation process, but Mr. Jones declined this option. On March 2, 2015, the Company received a draft complaint and a demand package from Gresham, Savage, Nolan & Tilden on behalf of Mr. Jones. The complaint included allegations of racial and disability discrimination, retaliation, failure to pay wages owed, and violations of the Family Medical Leave Act. Mr. Jones has proposed resolving the matter through mediation.

CORPORATION RESOLUTIONS AND INCUMBENCY CERTIFICATION

Borrower: LIME ENERGY CO.

I, the undersigned Secretary or Assistant Secretary of LIME ENERGY CO. (the "Corporation"), HEREBY CERTIFY that the Corporation is organized and existing under and by virtue of the laws of the State of Delaware.

I FURTHER CERTIFY that attached hereto as Attachments 1 and 2 are true and complete copies of the Certificate of Incorporation, as amended, and the Bylaws of the Corporation, each of which is in full force and effect on the date hereof.

I FURTHER CERTIFY that at a meeting of the Directors of the Corporation, duly called and held, at which a quorum was present and voting (or by other duly authorized corporate action in lieu of a meeting), the following resolutions (the "Resolutions") were adopted.

I FURTHER CERTIFY that any one (1) of the following named officers, employees, or agents of this Corporation, whose actual signatures are shown below:

NAMES	POSITION	ACTUAL SIGNATURES

acting for and on behalf of this Corporation and as its act and deed be, and they have been, authorized and empowered:

Borrow Money. To borrow from time to time from HERITAGE BANK OF COMMERCE ("Bank"), on such terms as may be agreed upon between the officers, employees, or agents of the Corporation and Bank, such sum or sums of money as in their judgment should be borrowed, without limitation.

Execute Loan Documents. To execute and deliver to Bank that certain Loan and Security Agreement dated as of July 24, 2015 (the "Loan Agreement") and any other agreement entered into between Corporation and Bank in connection with the Loan Agreement, including any amendments, all as amended or extended from time to time (collectively, with the Loan Agreement, the "Loan Documents"), and also to execute and deliver to Bank one or more renewals, extensions, modifications, refinancings, consolidations, or substitutions for the Loan Documents, or any portion thereof.

Grant Security. To grant a security interest to Bank in the Collateral described in the Loan Documents, which security interest shall secure all of the Corporation's Obligations, as described in the Loan Documents.

Negotiate Items. To draw, endorse, and discount with Bank all drafts, trade acceptances, promissory notes, or other evidences of indebtedness payable to or belonging to the Corporation or in which the Corporation may have an interest, and either to receive cash for the same or to cause such proceeds to be credited to the account of the Corporation with Bank, or to cause such other disposition of the proceeds derived therefrom as they may deem advisable.

Warrants. To issue Bank warrants to purchase the Corporation's capital stock.

Letters of Credit. To execute letter of credit applications and other related documents pertaining to Bank's issuance of letters of credit.

Corporate Credit Cards. To execute corporate credit card applications and agreements and other related documents pertaining to Bank's provision of corporate credit cards.

Further Acts. In the case of lines of credit, to designate additional or alternate individuals as being authorized to request advances thereunder, and in all cases, to do and perform such other acts and things, to pay any and all fees and costs, and to execute and deliver such other documents and agreements as they may in their discretion deem reasonably necessary or proper in order to carry into effect the provisions of these Resolutions.

BE IT FURTHER RESOLVED, that any and all acts authorized pursuant to these resolutions and performed prior to the passage of these resolutions are hereby ratified and approved, that these Resolutions shall remain in full force and effect and Bank may rely on these Resolutions until written notice of their revocation shall have been delivered to and received by Bank. Any such notice shall not affect any of the Corporation's agreements or commitments in effect at the time notice is given.

I FURTHER CERTIFY that the officers, employees, and agents named above are duly elected, appointed, or employed by or for the Corporation, as the case may be, and occupy the positions set forth opposite their respective names; that the foregoing Resolutions now stand of record on the books of the Corporation; and that the Resolutions are in full force and effect and have not been modified or revoked in any manner whatsoever.

IN WITNESS WHEREOF, I have hereunto set my hand on July 24, 2015 and attest that the signatures set opposite the names listed above are their genuine signatures.

CERTIFIED AND ATTESTED BY:

By: _____

Name: _____

Title: _____

Attachment 1
Certificate of Formation
[attached hereto]

Attachment 2

Bylaws

[attached hereto]

**CERTIFICATION PURSUANT TO
RULE 13a-14(a)/15d-14(a)
AS ADOPTED PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, C. Adam Procell, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Lime Energy Co.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the Audit Committee of the registrant's Board of Directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

/s/ C. Adam Procell

C. Adam Procell
President and Chief Executive Officer
August 14, 2015

**CERTIFICATION PURSUANT TO
RULE 13a-14(a)/15d-14(a)
AS ADOPTED PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Mary Colleen Brennan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Lime Energy Co.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the Audit Committee of the registrant's Board of Directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

/s/ Mary Colleen Brennan

Mary Colleen Brennan
Chief Financial Officer
August 14, 2015

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION
906 OF THE SARBANES-OXLEY ACT OF 2002**

I, C. Adam Procell, Chief Executive Officer of Lime Energy Co. (the "Company"), certify pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge and belief:

1. The Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015 (the "Quarterly Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ C. Adam Procell

C. Adam Procell
President and Chief Executive Officer
August 14, 2015

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Mary Colleen Brennan, Chief Financial Officer of Lime Energy Co. (the "Company"), certify pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge and belief:

1. The Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015 (the "Quarterly Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Mary Colleen Brennan

Mary Colleen Brennan
Chief Financial Officer
August 14, 2015

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lime-20150630_def.xml

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