ATLANTIC AMERICAN CORP
Form 10-Q
August 12, 2014

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

FORM 10-Q

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

For the quarterly period ended June 30, 2014
OR

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

Commission File Number 0-3722

ATLANTIC AMERICAN CORPORATION
(Exact name of registrant as specified in its charter)

Georgia	58-1027114
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4370 Peachtree Road, N.E., Atlanta, Georgia	30319
(Address of principal executive offices)	(Zip Code)

(404) 266-5500
(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 þ No o

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ 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 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 ¨ (Do not check if a smaller reporting company) Smaller reporting company þ

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No þ

The total number of shares of the registrant's Common Stock, $1 par value, outstanding on August 7, 2014 was 20,705,977.

ATLANTIC AMERICAN CORPORATION

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ATLANTIC AMERICAN CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except per share data)

ASSETS

	Unaudited June 30, 2014	December 31, 2013
Cash and cash equivalents	$ 27,759	$ 33,102
Investments:		
Fixed maturities (cost: $203,708 and $201,217)	214,294	201,303
Common and non-redeemable preferred stocks (cost: $12,164 and $12,432)	20,259	21,890
Other invested assets (cost: $3,032 and $2,123)	3,032	2,123
Policy loans	2,268	2,369
Real estate	38	38
Investment in unconsolidated trusts	1,238	1,238
Total investments	241,129	228,961
Receivables:		
Reinsurance	16,184	14,314
Insurance premiums and other (net of allowance for doubtful accounts: $322 and $339)	16,413	9,343
Deferred income taxes, net	-	363
Deferred acquisition costs	27,184	27,509
Other assets	5,591	3,245
Intangibles	2,544	2,544
Total assets	$ 336,804	$ 319,381

LIABILITIES AND SHAREHOLDERS' EQUITY

	June 30, 2014	December 31, 2013
Insurance reserves and policyholder funds:		
Future policy benefits	$ 70,408	$ 69,864
Unearned premiums	32,908	27,415
Losses and claims	67,043	63,018
Other policy liabilities	1,438	2,076
Total insurance reserves and policyholder funds	171,797	162,373
Accounts payable and accrued expenses	14,144	14,843
Deferred income taxes, net	2,988	-
Junior subordinated debenture obligations	41,238	41,238
Total liabilities	230,167	218,454
Commitments and contingencies (Note 6)		
Shareholders' equity:		
Preferred stock, $1 par, 4,000,000 shares authorized; Series D preferred, 65,000 shares issued and outstanding; $6,500 redemption value	65	65
Common stock, $1 par, 50,000,000 shares authorized; shares issued: 22,400,894; shares outstanding: 20,765,840 and 21,117,874	22,401	22,401
Additional paid-in capital	57,239	57,103

Retained earnings	19,777	18,738
Accumulated other comprehensive income	12,143	6,204
Unearned stock grant compensation	(476)	(485)
Treasury stock, at cost: 1,635,054 and 1,283,020 shares	(4,512)	(3,099)
Total shareholders' equity	106,637	100,927
Total liabilities and shareholders' equity	$336,804	$319,381

The accompanying notes are an integral part of these consolidated financial statements.

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ATLANTIC AMERICAN CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited; Dollars in thousands, except per share data)

	Three Months Ended June 30, 2014
Revenue:	
Insurance premiums	$38,456
Investment income	2,599
Realized investment gains, net	485
Other income	46
Total revenue	41,586
Benefits and expenses:	
Insurance benefits and losses incurred	27,069
Commissions and underwriting expenses	10,074
Interest expense	434
Other expense	3,023
Total benefits and expenses	40,600
Income before income taxes	986
Income tax expense	109
Net income	877
Preferred stock dividends	(118

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based upon ou

Use of Estimates

Preparation of the consolidated financial statements in accordance with accounting principles gen

Revenue Recognition

We recognize revenue when all four of the following criteria are met: (i) persuasive evidence has

Our MPG subsidiary often bundles contracts to provide monitoring services and web access with

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essential to the functionality of the product. Accordingly, we defer the revenue for the product and servi

Profit Recognition on Long-Term Contracts

We account for revenue on most of our long-term contracts on the completed contract method, wh

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability o

Impairment of Long-Lived Assets.

We record impairment losses on long-lived assets used in operations when events and circumstanc

During 2006, we determined that our VNPP (Virtual Negawatt Power Plan) Asset was complet

Goodwill

We have made acquisitions in the past that included a significant amount of goodwill and other in

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sale price of the business and determined that the goodwill was impaired. As a result we recorded an im

At the end of 2006 we completed an assessment of the goodwill associated with the acquisition of

It is possible that upon completion of future impairment tests, as the result of changes in facts or c

Stock-based Compensation

We have a stock incentive plan that provides for stock-based employee compensation, including t

Material Trends and Uncertainties

From time to time changes occur in our industry or our business that makes it reasonably likely th

The trends, events, and uncertainties set out in the remainder of this section have been identified a

Decision to Discontinue the Active Marketing of the EnergySaver. At the end of 2006, we decided

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purpose of manufacturing and marketing the EnergySaver and the EnergySaver has been a material sour

Results of Operations

Our revenues reflect the sale of our products and services, net of allowances for returns and other

Our cost of goods sold consists primarily of materials and labor. Also included in our cost of good

Sales and gross profits depend in part on the volume and mix of products sold during any given p

A portion of our operating expense is relatively fixed, such as the cost of our facilities and certain

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

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Interest expense for continuing operations includes the costs and expenses associated with workin

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

Revenue. Our revenue increased $4,450,195, or 120% to $8,143,624 during the year ended Decer

Gross Profit. Our gross profit increased $1,210,755 to $1,212,330 for the year ended December 3

SG&A Expenses and Amortization of Intangibles. Our selling, general and administrative expen

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Impairment Loss. As is more fully explained in Note 10 to the financial statements, during the qu
Other Non-Operating Income (Expense). Other Expense increased $2,534,935 during 2006 to $3

Twelve months ended December 31,

Contractual interest
Amortization of deferred issuance costs and debt discount
Value of warrant
Value of adjustment in conversion price
Prepayment penalties
Termination of post re-payment interest obligation

Total Interest Expense

Contractual interest expense (the interest on outstanding loan balances) increased $86,662 or 31%

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During April 2005 we issued a warrant to purchase 400,000 shares of our common stock to Lauru

Preferred Stock Dividends. Dividend expense recognized during the years ended December 31, 2

Year ended December 31,

Accrual of Series E Convertible Preferred dividend

Deemed dividend associated with change in conversion price of the Series E Convertible Preferred Stoc

Deemed dividend associated with change in the exercise price of warrants to purchase shares of commo

Total

Dividend expense increased $22,496,380 to $24,347,725 in 2006, from $1,851,345 in 2005. Divid
We have issued certain securities in the past that contain anti-dilution provisions (commonly refer
On June 29, 2006, we issued shares in the PIPE Transaction at $1.00 per share (as discussed in No

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In addition, a number of the outstanding common stock warrants, most of which were held by forr

On April 28, 2005, in exchange for $5,625,000 in gross proceeds, we issued a package of securitie

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

Revenue. Our revenue increased $2,959,799 to $3,693,429 during the year ended December 31, 2

Gross Profit. Our consolidated gross profit increased $130,311 in 2005 to $1,575 from a loss of $

SG&A Expenses and Amortization of Intangibles. Selling, general and administrative expenses i

Impairment Loss. We incurred an impairment loss of $242,830 during 2005 related to the reducti

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Other Non-Operating Income (Expense). Other non-operating expense is comprised of interest e

Twelve months ended December 31,

Contractual interest
Amortization of deferred issuance costs and debt discount
Value of warrant

Total Interest Expense

Amortization of the deferred issuance costs and debt discount related to the Laurus revolver and c
Interest income increased $36,232 to $58,737 during 2005 from $22,505 earned in 2004. The incr

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Preferred Stock Dividends. The dividend expense recognized during 2005 and 2004 was compris

Year ended December 31,

Accrual of dividend on Series A Convertible Preferred

Accrual of Series C Preferred dividend

Accrual of Series D Preferred dividend

Accrual of Series E Preferred dividend

Deemed dividend associated with beneficial conversion price on shares issuable in satisfaction preferred

Deemed dividend associated with the redemption and exchange of outstanding preferred stock

Deemed dividend associated with change in the expiration date of warrants to purchase shares of preferr

Deemed dividend associated with change in the exercise price of warrants to purchase shares of commo

Total

Our dividend expense for 2005 declined $2,787,914 or 60% to $1,851,345 from $4,639,259 in 20
On April 28, 2005, in exchange for $5,625,000 in gross proceeds, we issued a package of securiti

the deemed dividend by offsetting charges and credits to additional paid-in capital, without any effect or

As part of the redemption and exchange completed in March 2004, shares of our Series A, Series

We also incurred a $15,000 deemed dividend during 2004 when we agreed to extend the expiratio

Liquidity and Capital Resources

During the twelve-month period ended December 31, 2006 we incurred a net loss of $16.4 millior

As of December 31, 2006, we had cash and cash equivalents of $4,663,618, compared to cash and

The Company s principal cash requirements are for operating expenses, including employee cost

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The following table summarizes, for the periods indicated, selected items in our consolidated state

Year ended December 31

Net cash used in operating activities
Net cash used in investing activities
Net cash provided by financing activities

Net Increase (Decrease) in Cash and Cash Equivalents

Cash and Cash Equivalents, at beginning of period

Cash and Cash Equivalents, at end of period

2006 Compared to 2005

Net cash increased $434,468 and $2,439,342 during the years ended December 31, 2006 and 2005

Operating Activities

The net cash consumed in operating activities declined $708,557 or 10% to $6,248,085 in 2006 co

The cash consumed by working capital declined 60% or $917,656 to $624,007 in 2006 from $1,5

Investing Activities

Cash consumed in investing activities increased $2,083,084 to $4,264,930 in 2006 from $2,181,8

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During 2005, we used $1,632,972 for the acquisition of Maximum Performance Group, including

We do not anticipate making any unusual capital expenditures during 2007.

Financing Activities

During 2006 we generated net cash of $10,947,483 through financing activities as compared to ge

2005 Compared to 2004

Net cash increased $2,439,342 during the year ended December 31, 2005, while net cash declined

Operating Activities

The cash consumed by operating activities increased $2,917,584 or 72.2% to $6,956,642 during th

Investing Activities

Investing activities consumed $2,181,846 in 2005, an increase of $2,032,243 from the $149,603 c

Financing Activities

Financing activities generated $11,577,830 during the year ended December 31, 2005 as compare

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During 2004, we raised $11,000,000 through the issuance of a package of securities that included

LIQUIDITY

Our primary sources of liquidity are our available cash reserves.

During fiscal 2006, operating activities consumed cash of $6.3 million. We believe that changes v

Our ability to continue to expand the sales of our products and services will require the continued

During the last six fiscal years we have raised net proceeds of approximately $59 million through

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We believe that if we are successful in achieving these priorities we should have sufficient liquidi

If in the future we raise additional capital (which may require stockholder approval), our existing

Contractual Obligations

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

Contractual Obligations
Long-term debt *(1)*
Capital leases
Operating leases
Employment agreements
Total

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

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Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation N

Item 7A. Quantitative and Qualitative Disclosures

The only significant exposure we have to market risk is the risk of changes in market interest rate

Item 8. Financial Statements and Supplemental Data

Index to Financial Statements:

Item 9 **Change in and I**

None

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Item 9A. Controls and Procedures

(a)

(b)

Item 9B. Other Information

None

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PART III

Certain information required to be included in Part III is omitted from this report because we intend t

Item 10. Directors, Executive Officers of the Registrant and Corporate Governance

The information required by this Item is incorporated by reference to the Proxy Statement under the s

Item 11. Executive Compensation

Information regarding compensation of the Company s named executive officers is set forth under

Item 12. Security Owner

Information regarding security ownership of certain beneficial owners, directors and executive office

Information regarding the Company s equity compensation plans, including both stockholder approv

Item 13. Certain Relationships and Related Transactions, and Director Independence

Information regarding certain relationships and related transactions is set forth under Certain Relati

Item 14. Principal Accountant Fees and Services

Information regarding principal auditor fees and services is set forth under Principal Accountant Fe

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PART IV
Item 15. Exhibits and Financial Statement Schedules

(a)(1)

(a)(2)

(a)(3)

(b) Exhibits

Exhibit Number

2.01 (12)

2.02 (20)

2.03 (25)

3.01 (1)

3.02 (1)

3.03 (4)

3.04 (4)

3.05 (5)

3.06 (9)

3.07 (9)

3.08 (17)

3.09 (24)

3.10 (27)

4.01(2)

4.02 (3)

4.03 (7)

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Exhibit Number	Description of E
4.04 (7)	Amended and Re Capital USA Inc Cinergy Venture Thomas Hurvis F
4.07 (10)	Amended and Re
4.08 (11)	Form of Commo
4.09 (11)	Form of Commo
4.10 (12)	Form of Commo
4.11 (12)	Form of Commo
4.12 (12)	Stock Trading A
4.13 (13)	Warrant Certifica City Corp. issued
4.14 (13)	Registration Righ
4.15 (19)	Amendment to 2
4.16 (22)	Employee Stock
4.17 (22)	Employee Stock
4.18 (22)	Employee Stock
4.19 (22)	Employee Stock
4.20 (23)	Employee Option
10.01 (1)	Sales, Distributio
10.02 (1)	Sublicense Agree
10.03 (6)	Common Stock P
10.04 (6)	Form of Secured Ltd.
10.05 (14)	Third Amended a Corp. and Ameri

10.06 (14)	Amended and Re Bank and Electri
10.07 (17)	Employment Ag

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Exhibit Number	Description of E
10.08 (15)	Consulting agree
10.09 (16)	Employment Ag
10.10 (18)	Stock Purchase A
10.11 (18)	Non-Competition Eugene Borucki
10.12 (18)	Non-Competition Denis Enberg
10.13 (21)	Securities Purcha
10.14 (23)	Employment Ag
10.15 (26)	Fourth Modificat American Charte
10.16 (26)	Second Amended Chartered Bank a
10.17 (28)	Agreement with
10.18 (28)	Agreement with
10.19 (28)	Agreement with
10.20 (28)	Agreement with
10.21 (28)	Agreement with
14.1 (8)	Code of Ethics F
14.2(17)	Code of Business
21 *	List of subsidiari
23.01*	Consent of BDO
24	Power of Attorne
*	Filed herewith
(1)	

	Incorporated herein by reference to Electric City Corp. s registration statement on Form 10SB filed on September 9, 1999 (No. 000-2791).
(2)	Incorporated herein by reference to Electric City Corp s Current Report on Form 8-A filed with the SEC on December 8, 2000 (No. 0-2791).
(3)	Incorporated herein by reference to the Company s definitive Proxy Statement for the 2000 Annual Meeting of Stockholders, filed August 14, 2001 (No. 0-2791)
(4)	Incorporated herein by reference to Electric City Corp s Annual Report on Form10-KSB for the year ended December 31, 2001, filed April 15, 2002 (No. 0-2791).

(5)	Incorporated herein by reference to Electric City Corp s Annual Report on Form10-KSB for the year ended December 31, 2002, filed March 31, 2003 (No. 0-2791).
(6)	Incorporated herein by reference to Electric City Corp s Current Report on Form 8-K dated September 11, 2003 filed with the SEC on September 16, 2003 (No. 0-2791).
(7)	Incorporated herein by reference to Electric City Corp s Current Report on Form 8-K dated March 19, 2004 filed with the SEC on March 23, 2004 (No. 0-2791).
(8)	Incorporated herein by reference to Electric City Corp s Annual Report on Form10-KSB for the year

	ended December 31, 2003, filed March 29, 2004 (No. 0-2791).
(9)	Incorporated herein by reference to the Company s definitive Proxy Statement for the 2004 Annual Meeting of Stockholders, filed April 30, 2004 (No. 0-2791)
(10)	Incorporated herein by reference to Electric City Corp s Quarterly Report on Form 10-Q for the period ended March 31, 2004, filed with the SEC on May 13, 2004 (No. 0-2791).
(11)	Incorporated herein by reference to Electric City Corp s Annual Report on Form10-K for the year ended December 31, 2004, filed March 31, 2005, as amended April 14, 2005 (No. 0-2791).
(12)	Incorporated herein by reference to

	Electric City Corp s Current Report on Form 8-K dated April 28, 2005 filed with the SEC on May 4, 2005 (No. 0-2791).
(13)	Incorporated herein by reference to Electric City Corp s Current Report on Form 8-K dated November 22, 2005 filed with the SEC on November 30, 2005, as amended on February 9, 2006 (No. 0-2791).
(14)	Incorporated herein by reference to Electric City Corp s Current Report on Form 8-K dated December 13, 2005 filed with the SEC on December 15, 2005 (No. 0-2791).
(15)	Incorporated herein by reference to Electric City Corp s Current Report on Form 8-K dated January 22, 2006 filed with the SEC on

	January 26, 2006 (No. 0-2791).
(16)	Incorporated herein by reference to Electric City Corp s Current Report on Form 8-K dated January 22, 2006 filed with the SEC on February 22, 2006 (No. 0-2791).
(17)	Incorporated herein by reference to Electric City Corp s Annual Report on Form10-K for the year ended December 31, 2005, filed March 21, 2006 (No. 0-2791).
(18)	Incorporated herein by reference to Electric City Corp s Current Report on Form 8-K dated April 3, 2006 filed with the SEC on April 7, 2006 (No. 0-2791).
(19)	Incorporated herein by reference to Electric City Corp s Proxy Statement on Form 14A filed

	with the SEC on April 28, 2006 (No 0-2791).
(20)	Incorporated herein by reference to Electric City Corp s Current Report on Form 8-K dated May 19, 2006 filed with the SEC on May 22, 2006 (No. 0-2791).
(21)	Incorporated herein by reference to Electric City Corp s Current Report on Form 8-K dated June 29, 2006 filed with the SEC on July 6, 2006 (No. 0-2791).
(22)	Incorporated herein by reference to Electric City Corp s Current Report on Form 8-K dated July 11, 2006 filed with the SEC on July 17, 2006 (No. 0-2791).
(23)	Incorporated herein by reference to Electric City Corp s Current Report on Form 8-K dated August 15, 2006

	filed with the SEC on August 18, 2006 (No. 0-2791).
(24)	Incorporated herein by reference to Lime Energy Co. s Current Report on Form 8-K dated September 13, 2006 filed with the SEC on September 15, 2006 (No. 0-2791).
(25)	Incorporated herein by reference to Lime Energy Co. s Current Report on Form 8-K dated September 26, 2006 filed with the SEC on September 29, 2006 (No. 0-2791).

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(26)	Incorporated herein by reference to Electric City Corp s Current Report on Form 8-K dated December 28, 2006 filed with the SEC on December 29, 2006 (No. 0-2791).
(27)	Incorporated herein by reference to Electric City Corp s Current Report on Form 8-K dated January 22, 2007 filed with the SEC on January 24, 2007 (No. 0-2791).
(28)	Incorporated herein by reference to Electric City Corp s Current Report on Form 8-K dated January 24, 2007 filed with the SEC on February 21, 2007 (No. 0-2791).

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Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registra

April 2, 2007
Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been s

Signature

/s/ David R. Asplund

David R. Asplund
Chief Executive Officer & Director (principal executive officer)

/s/ Jeffrey R. Mistarz

Jeffrey R. Mistarz
Chief Financial Officer (principal financial and accounting officer)

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The undersigned hereby constitutes and appoints David Asplund and Jeffrey Mistarz, and each of the
Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been sign

Signature

/s/ David Asplund

David Asplund

/s/ Daniel Parke

Daniel Parke

/s/ Jeffrey Mistarz

Jeffrey Mistarz

/s/ Richard Kiphart

Richard Kiphart

/s/ Gregory Barnum

Gregory Barnum

/s/ William Carey

William Carey

/s/ Joseph Desmond

Joseph Desmond

/s/ Gerald Pientka

Gerald Pientka

/s/ David Valentine

David Valentine

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Report of Independent Registered Public Accounting Firm

Lime Energy Co.
Elk Grove Village, Illinois

We have audited the accompanying consolidated balance sheets of Lime Energy Co. as of December 31

We conducted our audits in accordance with the standards of the Public Company Accounting Oversigh

In our opinion, the consolidated financial statements referred to above present fairly, in all material resp

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

As discussed in Note 4 to the consolidated financial statements, effective January 1, 2006, the Company

Chicago, Illinois
March 30, 2007

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December 31,

Assets

Current Assets
Cash and cash equivalents
Accounts receivable, less allowance for doubtful accounts of $366,000 and $325,000 at December 31, 2
Inventories (Note 7)
Advances to suppliers
Costs and estimated earnings in excess of billings on uncompleted contracts
Prepaid expenses and other

Total Current Assets

Net Property and Equipment (Note 8)

Long Term Receivables

Deferred Financing Costs, net of amortization of $680,100 at December 31, 2005 (Note 14)

Intangibles, net of amortization of $1,681,771 and $471,765 at December 31, 2006 and 2005, respectiv

Cost in Excess of Assets Acquired

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December 31,

Liabilities and Stockholders Equity

Current Liabilities
Line of credit (Note 13)
Notes payable (Note 15)
Current maturities of long-term debt (Notes 14 and 16)
Accounts payable
Accrued expenses (Note 11)
Deferred revenue
Customer deposits

Total Current Liabilities

Deferred Revenue

Long-Term Debt, less current maturities net of unamortized discount of $0 and $898,409 as of Decemb
respectively (Notes 14 and 16)

Deferred Tax Liability

Total Liabilities

Commitments (Note 18 and 20)

Stockholders Equity (Notes 21, 22, 23, 24 and 25)
Preferred stock, $.01 par value; 5,000,000 shares authorized, Series E 0 and 236,254 issued and outsta
and December 31, 2005, respectively (liquidation value of $0 and $47,250,800 at December 31, 2006 a
respectively)
Common stock, $.0001 par value; 200,000,000 shares authorized, 49,786,611 and 3,386,465 issued as o
December 31, 2005, respectively
Additional paid-in capital
Accumulated deficit

Total Stockholders Equity

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Revenue

Cost of sales (includes reserve for obsolete inventory of $578,442 and $35,078 in the years ended Decer

Gross profit (loss)

Selling, general and administrative (includes share based compensation expense of $4,532,001, $0 and $
December 31, 2006, 2005 and 2004, respectively)
Amortization of intangibles (Note 9)
Impairment loss (Note 10)

Operating loss

Other Income (Expense)
Interest income
Interest expense (Notes 13, 14 and 17)

Total other income (expense)

Loss from continuing operations before discontinued operations

Discontinued Operations:
Loss from operation of discontinued business

Net Loss

Preferred Stock Dividends (Note 24)

Net Loss Available to Common Shareholders

Basic and diluted loss per common share from continuing operations

Discontinued operations

Basic and Diluted Loss Per Common Share

Weighted Average Common Shares Outstanding (Note 25)

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Balance, December 31, 2003

Issuance of common stock (net of offering costs of $910,393)
Conversion of preferred stock
Redemption of preferred stock
Exchange of preferred stock
Cumulative dividends on preferred stock
Satisfaction of accrued dividends through the issuance of preferred stock
Conversion of term note
Exercise of warrants (net of offering costs of $24,000)
Warrants issued for services received
Other
Net loss for the year ended December 31, 2004

Balance, December 31, 2004

Issuance of common stock (net of offering costs of $211,787)
Conversion of preferred stock
Acquisition of Maximum Performance Group, Inc.
Cumulative dividends on preferred stock
Satisfaction of accrued dividends through the issuance of preferred stock
Warrants issued in connection with convertible debt issuance
Common stock issued for services received
Warrants issued for services received
Net loss for the year ended December 31, 2005

Balance, December 31, 2005

Issuance of common stock (net of offering costs of $115,107)
Cumulative dividends on preferred stock
Satisfaction of accrued dividends through the issuance of preferred stock
Conversion of preferred stock
Sale of Great Lakes Controlled Energy Corporation
Acquisition of Parke P.A.N.D.A. Corporation
Acquisition of Kapadia Consulting, Inc.
Conversion of revolver
Beneficial value of adjustment in revolver conversion price
Term loan liquidated damages satisfied through the issuance of common stock
Termination of post repayment interest obligation
Warrants issued for services received
Share based compensation

Net loss for the year ended December 31, 2006

Balance, December 31, 2006

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Cash Flows From Operating Activities
Net loss
Adjustments to reconcile net loss to net cash used in operating activities, net of assets acquired and disp
Provision for bad debts
Share based compensation
Depreciation and amortization
Amortization of deferred financing costs
Amortization of issuance discount
Liquidated damages satisfied through issuance of common stock
Termination of post repayment interest and interest converted to common stock
Beneficial value of adjustment in revolver conversion price
Issuance of shares and warrants in exchange for services received
Accrued interest converted to common stock
Loss on disposal of fixed assets
Asset impairment
Provision for inventory obsolescence
Goodwill impairment
Changes in assets and liabilities, net of dispositions
Accounts receivable
Inventories
Advances to suppliers
Other current assets
Accounts payable
Accrued liabilities
Deferred revenue
Customer deposits

Net cash used in operating activities

Cash Flows From Investing Activities
Acquisitions (including acquisition costs), net of cash acquired
Sale of discontinued operations
Purchase of property and equipment

Net cash (used in) provided by investing activities

Cash Flows From Financing Activities
Borrowings (payments) on line of credit

Proceeds from long-term debt
Payments on long-term debt
Preferred stock redemption
Proceeds from issuance of preferred stock
Proceeds from issuance of common stock
Costs related to stock issuances
Cash paid for deferred financing costs
Proceeds from exercise of warrants

Net cash provided by financing activities

Net Increase (Decrease) in Cash and Cash Equivalents

Cash and Cash Equivalents, at beginning of period

Cash and Cash Equivalents, at end of period

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Supplemental Disclosures of Cash Flow Information

Cash paid during the period for interest continuing Operations (including prepayment penalties)

Cash paid during the period for interest discontinued operations

Stock, warrants and options issued in exchange for services received

Accrual satisfied through the issuance of common stock

Inventory transferred to fixed assets (VNPP assets)

Satisfaction of accrued dividends on Series A Preferred Stock through the issuance of 5,407 shares of Se
the year ended December 31, 2004 and 225,398 shares of Series A Preferred stock during the year ended

Satisfaction of accrued dividends on Series C Preferred Stock through the issuance of 532 shares of Seri
year ended December 31, 2004

Satisfaction of accrued dividends on Series D Preferred Stock through the issuance of 359 shares of Seri
year ended December 31, 2004

Satisfaction of accrued dividends on Series E Preferred Stock through the issuance of 6,980, 13,669 and
Preferred stock during the years ended December 31, 2006, 2005 and December 31, 2004, respectively

Conversion of convertible debt to common stock
Holders of Series E preferred stock converted 243,234 shares of Series E preferred stock into 21,695,87
The holder of the Company s revolving convertible note converted the outstanding balance of $943,45
The Company satisfied $161,096 of liquidated damages for failing to register common stock with the SE
On June 29, 2006, in exchange for receiving 231,500 shares of the Company s common stock, the hold

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Supplemental Disclosures of Noncash Investing and Financing Activities:

On June 30, 2006, the Company purchased Parke P.A.N.D.A. Corporation for $2,863,895 in cash (net o

Cash
Accounts receivable
Inventory
Other current assets
Property and equipment
Identifiable intangible assets
Cost in excess of assets acquired

Total assets acquired

Line of credit
Accounts payable
Accrued expenses
Notes payable
Other current liabilities
Deferred tax liability

Total liabilities assumed

Net assets acquired

Less valuation of shares issued for acquisition
Acquisition costs

Total cash paid

On September 27, 2006, the Company purchased Kapaida Consulting, Inc. for $1,234,482 in cash (net c

Cash
Accounts receivable
Inventory
Other current assets
Long term receivables
Property and equipment
Identifiable intangible assets
Cost in excess of assets acquired

Total assets acquired

Accounts payable
Accrued expenses
Other current liabilities

Total liabilities assumed

Net assets acquired	
Less valuation of shares issued for acquisition	
Acquisition costs	
Total cash paid	

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Note 1 Description of Business

Lime Energy Co. (the Company), a Delaware corporation, is a developer, manufacturer and integr

Note 2 Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with account

Note 3 Name Change

On September 13, 2006, the Company changed its name from Electric City Corp. to Lime Energy Co

Note 4 Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Lime Energy Co. and its wholly owned

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles

Cash and Cash Equivalents

The Company considers highly liquid investments with a maturity of three months or less when purc

Concentration of Risk

The Company s customers are primarily owners of, or tenants of, commercial and industrial buildin

The Company purchases its materials from a variety of suppliers and continues to seek out alternate

The Company maintains cash and cash equivalents in accounts with a financial institution in excess

Allowance for Doubtful Accounts

The Company records an allowance for doubtful accounts based on specifically identified amounts t

Inventories

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

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Properties & Equipment

Property and equipment are stated at cost. For financial reporting purposes depreciation is computed

Buildings
Computer equipment
Office equipment
Furniture
Manufacturing equipment
Transportation equipment

Cost in Excess of Assets Acquired

Goodwill represents the purchase price in excess of the fair value of assets acquired in business comb

During the fourth quarter of 2006, the Company with the assistance of a third party valuation expert,

Deferred Financing Costs

The Company capitalized as deferred financing costs $980,064 of expense incurred in arranging its c

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Impairment of Long-Lived Assets

The Company records impairment losses on long-lived assets used in operations when events and cir

Revenue Recognition

The Company recognizes revenue when all four of the following criteria are met: (i) persuasive evide

The Company accounts for revenue on most of its long-term contracts on the completed contract met

The timing of revenue recognition may differ from contract payment schedules resulting in revenues

The Company s MPG subsidiary often bundles contracts to provide monitoring services and web ac

Shipping and Handling Costs

The Company classifies freight costs billed to customers as revenue. Costs related to freight are class

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Research and Development Costs

Research and development costs are charged to operations when incurred and are included in selling,

Advertising, Marketing and Promotional Costs

Expenditures on advertising, marketing and promotions are charged to operations in the period incur

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred income taxes are recog

Net Loss Per Share

The Company computes loss per share under Statement of Financial Accounting Standards No. 128,

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

December 31,
Weighted average shares issuable upon exercise of outstanding options
Weighted average shares issuable upon exercise of outstanding warrants
Weighted average shares issuable upon conversion of preferred stock
Weighted average shares issuable upon conversion of convertible debt
Total

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Fair Value of Financial Instruments

The carrying amounts reported in the consolidated balance sheets for cash, accounts receivable, acco

Stock-based Compensation

The Company has a stock incentive plan that provides for stock-based employee compensation, inclu

On January 1, 2006, the Company adopted SFAS No. 123(R), which requires companies to record st

The following table illustrates the effect on the net loss and earnings per share if the Company had ap

Year ended December 31,	
Net Loss, as reported	
Deduct: Stock-based employee compensation expense included in reported net loss	
Add: Total stock-based employee compensation expense determined under fair value based method for	
Pro forma net loss	
Net loss per share:	
Basic and diluted	as reported
Basic and diluted	pro forma

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For purposes of this pro forma disclosure the fair value of each option granted has been estimated on

December 31,

Risk-free interest rate

Expected volatility

Expected life (years)

Expected dividend yield

The weighted-average fair value of options granted was $0.68 in 2005 and $1.16 in 2004. For purpos

Warranty Obligations

The Company warrants to the purchasers of its products that the product will be free of defects in ma

Insurance Reserves

In October 2005, the Company implemented a partially self-funded health insurance program for its

Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No.

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Note 5 Acquisitions

On May 3, 2005, pursuant to an Agreement and Plan of Merger (the Merger Agreement) dated as

The merger consideration, after post closing adjustments, consisted of $1,632,972 in cash (net of tran

As a result of the merger, Merger Subsidiary (which changed its name to Maximum Performance Gr

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

Accounts receivable	
Inventory	
Advances to suppliers	
Other current assets	
Net property and equipment	
Identifiable intangible assets	
Goodwill	
Total assets acquired	
Accounts payable	
Accrued expenses	
Deferred revenue	
Other current liabilities	
Notes payable	
Total liabilities acquired	
Net assets acquired	

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Less valuation of shares issued for acquisition

Acquisition costs paid through the issuance of common stock

Total cash paid, including acquisition costs, net of cash acquired

Utilizing an independent third party valuation firm, the Company has assessed the fair values of asse

Asset Class

eMac technology and software

Customer relationships

Customer contracts

On May 19, 2006, Lime Energy entered into an agreement by and among the Company, Parke Acqui
The merger consideration consisted of $2,720,000 in cash and shares of common stock having the va
Parke is an energy services provider specializing in the design, engineering and installation of energy
Dan Parke, the president and founder of Parke continues to serve as the President of Parke and as of

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

Cash
Accounts receivable
Inventory
Other current assets
Net property and equipment
Identifiable intangible assets
Goodwill

Line of credit
Accounts payable
Accrued expenses
Notes payable
Other current liabilities
Deferred tax liability

Utilizing an independent third party valuation firm, the Company has assessed the fair values of asse

Asset Class

Non-compete agreement

Customer contracts

Sales pipeline

Trade name

On September 26, 2006, the Company entered into an Agreement and Plan of Merger with Kapadia A
The merger consideration consisted of $1,250,000 in cash and 500,000 shares of Lime Energy comm

Table of Contents

Kapadia is an engineering firm that specializes in energy management consulting and energy efficien
The assets acquired and liabilities assumed in the acquisition are based on a preliminary allocation as

Cash
Accounts receivable
Inventory
Other current assets
Long term receivables
Property and equipment
Identifiable intangible assets
Goodwill
Accounts payable
Accrued expenses
Other current liabilities

Utilizing an independent third party valuation firm, the Company has assessed the fair values of asse

Asset Class
Sales backlog
Sales pipeline
Non-compete agreement
Customer list

The acquisitions of MPG, Parke and Kapadia were recorded using the purchase method of accountin

Unaudited pro forma results of operations for the years ended December 31, 2006, 2005 and 2004 fo

Year ended December 31,

Revenue:
As Reported
Pro-forma

Net Loss from Continuing Operations:
As Reported
Pro-forma

Basic and Diluted Loss per Share from Continuing Operations:
As Reported
Pro-forma

The pro forma operating results as if the Company had completed the acquisition of Kapadia as of th

Note 6 Discontinued Operations

The Company adopted Statement of Financial Accounting Standards No. 144 (SFAS 144) at the beg

On April 3, 2006, the Company completed a Stock Purchase Agreement with Eugene Borucki and D

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The assets and liabilities of the discontinued operations that are included in the Company s consolid

Year ended December 31

Accounts receivable
Other current assets

Total current assets

Net property plant and equipment

Total assets

Accounts payable
Accrued expenses
Current portion of long term debt
Deferred revenue
Customer deposits

Total current liabilities

Total liabilities

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

Year ended December 31

Revenue

Net Loss

Note 7 Inventories

Inventories consisted of the following:

December 31,

Raw materials

Work in process

Finished goods

Reserve for obsolesce *(1)*

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

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Note 8 Property and Equipment

Property and equipment consist of the following:

December 31,

Land
Building
Furniture
Manufacturing equipment
Office equipment
Transportation equipment
VNPP assets

Less accumulated depreciation

Note 9 Goodwill and Other Intangible Assets

Goodwill represents the purchase price in excess of the fair value of assets acquired in business comb

Balance at January 1, 2005

Acquisition of Maximum Performance Group, Inc.

Impairment charge

Balance at December 31, 2005

Sale of Great Lakes Controlled Energy Corporation

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

Acquisition of Kapadia Consulting, Inc.

Balance at December 31, 2006

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See Note 6 for additional information regarding the sale of Great Lakes Controlled Energy and Note
The components of intangible assets as of December 31, 2006 and 2005 are as follows:

As of December 31, 2006
Indefinite-lived assets
Amortized intangible assets:
Technology and software
Customer relationships
Customer contracts
Non-complete agreements
Sales pipe-line

Total

As of December 31, 2005
Indefinite-lived assets
Amortized intangible assets:
Technology and software
Customer relationships
Customer contracts
Non-complete agreements
Sales pipe-line

Total

The aggregate amortization expense was $1,210,006 and $471,765 for the years ended December 31

2007
2008
2009
2010
2011

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Note 10 Asset Impairment

In accordance with SFAS 144 Accounting for the Impairment or Disposal of Long-Lived Assets,

In September 2003 the Company entered into a contract with Commonwealth Edison Company (Co

As a result of the high capital requirements of this program, changes in lighting technology and chan

To determine if the ComEd VNPP asset was impaired, the Company analyzed the cash flows to be g

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Note 11 Accrued Expenses

Accrued expenses are comprised of the following:

December 31,

Commissions
Compensation
Contract labor
Insurance
Interest
Inventory costs
Lease expense
Legal
Professional fees
Real estate taxes
Registration penalties
Royalties
Sales tax payable
Warranty reserve
Other

Note 12 Warranty Liability

Changes in the Company s warranty liability are as follows:

December 31,

Balance, beginning of year
Warranties issued
Settlements
Adjustments *(1)*

Balance, end of year

(1) Reflects the sale of Great Lakes Controlled Energy

Note 13 Line of Credit

On September 11, 2003 the Company closed on a credit facility with Laurus Master Fund, Ltd. (La

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On June 29, 2006, Laurus exercised its right to convert all of the outstanding balance on the Compan

Note 14 Convertible Term Loans

On September 11, 2003, the Company entered into a $1,000,000 convertible Term Loan with Laurus

In recording the transaction, the Company allocated the value of the proceeds to the Term Loan and

Additional warrants were issued to Laurus in connection with the revolving line of credit discussed i

On November 26, 2003, Laurus converted $52,346 of principal and $654 of accrued interest into 1,6

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On November 22, 2005, the Company and Laurus entered into a securities purchase agreement provi
As part of the November 2005 Term Loan the Company agreed to split any cash flow generated by th
In connection with the November 2005 Term Loan, Laurus received warrants to purchase shares of th
On June 29, 2006, the Company repaid the outstanding balances on the two term loans held by Lauru

Principal	
Interest through the date of repayment	
Prepayment penalties	
Related fees	
Total payment	

In conjunction with the repayment Laurus agreed to 1) waive the payment of liquidated damages due
Upon the repayment of the term loans the Company was required to recognize as interest expense the

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Note 15 Notes Payable

As part of the acquisition of Maximum Performance Group, Inc., the Company assumed a $150,000

Note 16 Long Term Debt

The Company s long term debt consists of the following:

December 31,

Mortgage note to American Chartered Bank, prime (8.25% as of December 31, 2006) plus 1/2%, payabl
$3,000, plus interest until January 2008. A final payment of $487,000 is due in February 2008. This not
building and land.

Convertible term note to Laurus Master Fund (less debt discount of $7,768, as of December 31, 2005). I
2006. (see Note 14)

Convertible term note to Laurus Master Fund (less debt discount of $890,641 as of December 31, 2005)
2006. (see Note 14)

Various other notes

Total debt

Less current portion

Total long-term debt

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

2007
2008
2009
2010
2011
2112

Note 17 Interest Expense

Interest expense is comprised of the following:

Year ended December 31

Line of credit (Note 13)
Note payable (Note 15)
Mortgage (Note 16)
Convertible term loans (Note 14)
Other
Amortization of deferred issuance costs and debt discount (Note 14)
Value of warrant issued to Laurus (Note 23(i))
Prepayment penalty (Note 14)
Value of adjustment in conversion price (Note 14)
Termination of post re-payment interest obligation (Note 14)

Total Interest Expense

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Note 18 Lease Commitments

The Company leases a facility in Glendora, California from a Company controlled by Dan Parke, the

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

Year ending December 31,

2007
2008
2009
2010

Total

Note 19 Income Taxes

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

Year ended December 31

Deferred
Federal
State
Change in valuation allowance

Benefit for income taxes

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

December 31

Deferred tax asset consisting principally of net operating losses
Deferred tax liabilities, principally related to non-deductible identifiable intangible assets

Less valuation allowance

Total net deferred tax liability

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The Company has recorded a valuation allowance equaling the deferred tax asset due to the uncertai
The reconciliation of income tax expense (benefit) to the amount computed by applying the federal s

Year ended December 31,
Income tax (benefit) at federal statutory rate
State taxes (net of federal tax benefit)
Other nondeductible expenses
Other
Increase in valuation allowance
Income tax expense (benefit)

The Company has recorded a valuation allowance of $27.4 million due to the uncertainty of future u

Note 20 Commitments and Contingencies

a) Pursuant to the Consolidated Agreement dated January 8, 20

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for the years ended December 31, 2006, 2005 and 2004, resp

b) The Company entered into employment agreements with cer

Year ending December 31,

2007
2008
2009

Total

c) The Company is involved in certain litigation in the normal

Note 21 The June 2006 PIPE Transaction

On June 29, 2006, the Company entered into a securities purchase agreement with a group of 17 inve

A provision of the June 2006 PIPE Transaction required the Company to file and have declared effec

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Note 22 The Series E Conversion

In connection with the June 2006 PIPE Transaction, the holders of the Series E Preferred agreed to c

Prior to the June 2006 PIPE Transaction, the Series E Preferred stock was convertible into the Comp

Note 23 Equity Transactions

2004 Transactions

a) During fiscal 2004, holders of the Company s Series A Con

b) Also during 2004, holders of the Company s Series E Conv

c) On March 19, 2004, the Company entered into a securities p

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On March 22, 2004, the Company entered into a Redemptio

Except as with respect to dividends, the Series E Preferred h

The Series E Preferred accrued dividends at a rate of 6% (ve

Fees and expenses related to the transactions totaled $910,39

d) During fiscal 2004, the Company received proceeds of $485

e) During fiscal 2004, the Company issued warrants to purchas

f) During fiscal 2004, Laurus Master Fund Ltd. converted $270

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g) During fiscal 2004, the Company satisfied the accrued divid

2005 Transactions

h) During 2005, two holders of the Company s Series E Conve

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

j)	On April 28, 2005 the Company issued to five (5) institution
	Delano Group Securities LLC and Mr. David Valentine acte
k)	On May 3, 2005 the Company issued 166,148 shares of com
	Delano Group Securities LLC acted as an advisor on the acq
l)	On November 22, 2005 the Company entered into a securitie
	This term loan was retired through a cash payment on June 2
m)	During the year ended December 31, 2005, the Company s

2006 Transactions

n)	During the first three months of 2006, two holders of the Co
o)	Effective March 31, 2006, the Company received 14,194 sha
p)	On June 29, 2006 the Company entered into a Securities Pur
q)	Concurrently with the closing of the PIPE Transaction pursu
r)	A number of the Company s common stock warrants contai
s)	Immediately following completion of the PIPE Transaction a

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t) On June 30, 2006, the Company issued 5,000,000 shares to t

u) During the first six months of 2006, the Company s Board o

v) On July 25, 2006, the Company issued a three year warrant t

w) On September 26, 2006, the Company issued 500,000 shares

x) The Company had outstanding warrants to purchase 1,102,1

Exercise Price
$1.00
$1.01 - $14.99
$15.00 $19.99
$20.00 $98.40

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Note 24 Dividends

The dividend expense recognized during the years ended December 31, 2006, 2005 and 2004 is comp

Year ended December 31,
Accrual of dividend on Series A Convertible Preferred
Accrual of Series C Preferred dividend
Accrual of Series D Preferred dividend
Accrual of Series E Preferred dividend
Deemed dividend associated with change in conversion price of the Series E Convertible Preferred Stoc
Deemed dividend associated with beneficial conversion price on shares issuable in satisfaction preferred
Deemed dividend associated with the redemption and exchange of outstanding preferred stock
Deemed dividend associated with change in the expiration date of warrants to purchase shares of preferr
Deemed dividend associated with change in the exercise price of warrants to purchase shares of commo
Total

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Note 25 Reverse Split

In June 2006, the Company s Board of Directors approved and the Company announced a 1 for 15 r

Note 26 Stock Options

On August 30, 2001, the Company s shareholders approved the adoption of the 2001 Stock Incentiv

In addition to the ISOs and non-qualified options, the Plan permits the Compensation Committee, co

The Plan is administered by the Board, which is authorized to interpret the Plan, to prescribe, amend

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Exchange Act or the rules of any stock exchange or market on which the Common Stock is listed (unles

As of December 31, 2006, there were approximately 78 employees of the Company eligible to partic

Effective April 1, 2000, the Company adopted a stock option plan for all independent directors, whic

During 2004, certain directors, officers and key employees of the Company were granted options to a

During 2005, certain directors, officers and key employees of the Company were granted options to a

During 2006, certain directors, officers and key employees of the Company were granted options to a

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The following table summarizes the options granted, exercised and outstanding as of December 31, 2

Outstanding at December 31, 2003
Granted
Forfeited
Outstanding at December 31, 2004
Granted
Forfeited
Outstanding at December 31, 2005
Granted
Forfeited
Outstanding at December 31, 2006
Options exercisable at December 31, 2006
Options exercisable at December 31, 2005
Options exercisable at December 31, 2004

The weighted-average, grant-date fair value of stock options granted to employees during the year, a

Year ended December 31,
Weighted average fair value per options granted
Significant assumptions (weighted average):
Risk-free interest rate at grant date
Expected stock price volatility
Expected dividend payout
Expected option life (years)

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The risk-free interest rate is based on the U.S. Treasury Bill rates at the time of grant. The dividend r
The Company recognized $4,828,955 and $0 of share based compensation expense related to stock o
Option activity under the Company s stock option plans as of December 31, 2006 and changes durin

Outstanding at December 31, 2005
Granted
Forfeited
Outstanding at December 31, 2006
Options exercisable at December 31, 2006

The following table summarizes information about stock options outstanding at December 31, 2006:

Exercise Price
$0.90 - $1.00
$1.01 - $1.10
$1.11 - $10.00
$10.01 - $194.85

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The aggregate intrinsic value of the outstanding options (the difference between the closing stock pri
As of December 31, 2006, $3,417,726 of total unrecognized compensation cost related to outstanding

Year ending December 31,	
2007	
2008	
2009	
Total	

A summary of the nonvested options for the year ended December 31, 2006 is as follows:

Nonvested at December 31, 2005	
Granted	
Vested	
Forfeited	
Nonvested at December 31, 2006	

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Note 27 Related Parties

On June 29, 2006, the Company entered into the PIPE Transaction and Series E Conversion (as desc

A breakdown of the shares issued in these transactions to Messrs. Asplund, Kiphart and Valentine is

David R. Asplund
Richard P. Kiphart
David Valentine
Total

During January 2006, the Company entered into a consulting agreement with Parke P.A.N.D.A. Cor

During January 2006 and again in November 2006, the Company retained Corporate Resource Deve

On June 29, 2006, the Company acquired Parke P.A.N.D.A. Corporation, a company owned by The

As part of the acquisition of Parke P.A.N.D.A. Corporation, the Company assumed Parke P.A.N.D.A

Certain other related party transactions are disclosed in Notes 18 and 20.

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The Company does not have a written policy concerning transactions between the Company or a sub

Note 28 Business Segment Information

The Company is organized and manages its business in two distinct segments: the Energy Technolog

The Energy Technology segment designs, manufactures and markets energy saving technologies, pri

The Energy Services segment includes the operations of Parke Industries, LLC and Kapadia Energy

Prior to March 31, 2006 the Company also operated a Building Control and Automation segment, wh

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An analysis and reconciliation of the Company s business segment information to the respective inf

Year ended December 31,

Revenues:
Energy Technology
Energy Services
Intercompany sales

Total

Operating Loss:
Energy Technology
Energy Services
Corporate

Total

Interest Expense, net

Loss from continuing operations

Depreciation and Amortization:
Energy Technology
Energy Services
Building Control and Automation

Total

Capital Additions:
Energy Technology
Energy Services
Building Control and Automation

Total

Total Assets:
Energy Technology
Energy Services
Building Control and Automation

Total

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Note 29 Selected Quarterly Financial Data (unaudited)

The following represents the Company s unaudited quarterly results for fiscal 2006 and fiscal 2005.

Revenue
Gross profit (loss)
Loss from continuing operations
Loss from discontinued operations
Net loss
Preferred dividends
Net loss available to common shareholders
Basic and diluted loss per common share from continuing operations
Discontinued operations
Basic and Diluted Loss Per Common Share
Weighted averages shares

Revenue
Gross profit (loss)
Loss from continuing operations
Income (loss) from discontinued operations
Net loss
Preferred dividends
Net loss available to common shareholders
Basic and diluted loss per common share from continuing operations
Discontinued operations
Basic and Diluted Loss Per Common Share
Weighted averages shares

Note 30 Subsequent Events

On February 23, 2007, the Company commenced a rights offering to stockholders in which it distribu

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Allowance for doubtful accounts:

Year ended December 31, 2004

Year ended December 31, 2005

Year ended December 31, 2006

Other adjustment of $42,000 in 2005 resulted from the acquisition of Maximum Performance Group, In

Other adjustment of ($3,000) in 2006 resulted from the sale of Great Lakes Controlled Energy and the a

Reserve for obsolete inventory:

Year ended December 31, 2004

Year ended December 31, 2005

Year ended December 31, 2006

Other adjustment of $9,000 in 2005 resulted from the acquisition of Maximum Performance Group, Inc.