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LIME - Q4 2010 Lime Energy Co. Earnings Conference Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Fourth Quarter 2010 Lime Energy Company Earnings Call. My name is Melanie, and I'll be your coordinator today.

At this time all participants are in a listen-only mode. We will accept your questions at the end of this conference.

(Operator Instructions)

As a reminder, today's call is being recorded. I would now like to turn the call over to Mr. Glen Akselrod, spokesperson. Please, proceed.

Glen Akselrod - *Bristol Capital Ltd. - IR*

Thank you, Melanie. Good afternoon, and thank you for taking the time to join us today for our 2010 fourth quarter and year-end results conference call. With us today is David Asplund, CEO, Dan Parke, President, Jeff Mistarz, CFO, and John O'Rourke, COO.

I hope all of you have had a chance to review the earnings announcement released earlier today and which can be accessed on Lime's website, www.lime-energy.com or for the 10-K on the SEC website. Before I hand the discussion over to David, I want to remind everyone that the call today will include some statements that will be considered forward-looking regarding the Company's strategy, operations and financial performance.

Those statements are subject to many uncertainties in the Company's operations and business environment. I refer you to the complete forward-looking statement disclosure and the earnings release, which is incorporated by reference for the purposes of this call. I'd also like to refer you to the disclosures made in the Company's quarterly and annual filings with the SEC.

Finally, before we get started I want to mention this call is being broadcast live over the Internet and be -- and can be accessed on the Lime Energy website and also on the Thompson CCBN Network. There will be a replay available on either website until June 10th, 2011. With that I'll hand the discussion over to David.

David Asplund - *Lime Energy Co. - CEO*

Thank you, Glen. Good afternoon, everyone, and thank you for taking the time for our fourth quarter and 2010 year-end earnings call.

I think our fourth quarter illustrated what we've been saying for a while, namely that the key to us generating sustained profitability is to deliver strong revenue growth, hold or improve our gross margins and control the growth of our SG&A. During the fourth quarter we increased our revenue by 89% while decreasing our SG&A by 4.5% and increasing our gross margin by 6.4 percentage points, resulting in our first GAAP profit in the Company's history.

On a full-year basis, revenue grew 35%, gross margins by 15%, while SG&A grew only 8%. For the year, SG&A was 27% of revenue compared to 33.8% for 2009. While this was a meaningful 20% reduction, it is still much higher than our target. So, we remain committed to reducing this to the mid-teens over the next several years.

Getting to sustained profitability remains our top objective. And we took significant strides toward achieving this goal during 2010. Jeff will go into our financial results in more detail. So, I'll first discuss some business highlights with some insight into what we're seeing in our different markets.

The C&I market strengthened significantly in the fourth quarter. As we discussed on earlier calls, the C&I market was soft early in the year as customers continued to be reluctant to make capital expenditures. Conditions improved later in the year, however. And we are seeing this trend continue into 2011.

We're also seeing some C&I clients interested in deeper, more comprehensive energy efficiency solutions like building and lighting controls and HVAC upgrades to achieve even greater cost savings and more carbon reduction. This is significant because it increases the project size and leverages our company-wide platform of multi-measure energy efficiency solutions.

New data-modeling tools we have developed enable us to cost-effectively analyze a building's energy use and generate a suite of efficiency and renewable options that meet our clients' needs based on ROI, return on investment, as well as equipment upgrades, maintenance and overall building functionality requirements. As a result, we have brought new services online, which are resulting in highly scalable, deeper client relationships with recurring revenue.

For instance, C&I worked with key accounts to provide capital asset management plans where fee-based, detailed site inspections are performed across a client's portfolio of facilities. An engineering report is generated, delivering specific equipment conditions and functionality at each of their facilities.

This data is loaded into our proprietary software systems, allowing us to provide building energy benchmarking and identify in-depth energy and infrastructure upgrade opportunities creating new revenue streams through equipment monitoring, service and repair dispatch, utility usage trending and tracking and comprehensive portfolio-wide energy efficiency upgrades.

We also recently added a new solution in electric vehicle charging stations. We designed and installed charging stations for one of our Fortune 500 client's fleet of electric delivery vehicles at select distribution centers throughout the country. More and more companies are realizing the benefits of utilizing electric vehicles. So, we believe this could be a fast-growing area where Lime Energy has a unique capability to include this solution as part of a client's overall sustainability strategy.

Other examples of recent technology-based offerings are the use of the state-of-the-art exterior LED light fixtures, which incorporate wireless control features. Working with the world's leading lighting equipment brands, we are developing sophisticated control strategies, which product substantial energy savings and enhance the selling environment for clients like retail auto dealerships and minimize liability for clients like banks through continuous commission and monitoring.

The C&I market has been challenging over the last couple of years. But it's future has never looked brighter. Companies are recognizing that they need more help than ever to lower operating costs, reduce waste, hedge against rising energy prices, reduce their carbon footprint and improve on their sustainability.

Clients increasingly rely on us as an independent technology-agnostic partner to help them decipher the complex world of energy efficiency, smart grid technology and sustainability. We are proud of the B.E.S.T. Award, or Becoming Environmentally Sustainable Together, that we received last year due to our extensive work with Sara Lee. This is another example of Lime Energy being recognized as corporate America's energy efficiency partner.

Now, as we expected, our public sector markets were also impacted early in 2010. Customer delays and uncertainty regarding funding sources resulted in a weak first half. But the situation improved by mid-year, ending with strong third and fourth quarter performance. Revenue from our ESCO customers ended slightly positive year over year. We backed off some regional markets due to margin pressure. So, overall revenue in this division fell just short of levels achieved during 2009.

We do believe the recovery seen during the last two quarters of 2010 will continue this year, as several ESCOs have publicly reported higher growth expectations in most of their markets. State and federal markets, however, could continue to be hampered by tepid development. Budget deficits are creating short-term complications in these markets. We've seen this cycle before, however, which created robust opportunities for performance contracting by our ESCO customers who guarantee project energy savings and arrange long-term financing.

Performance contracts are an expedient way for this sector to achieve efficiency goals and infrastructure upgrades. They are approved at the state level by individual state legislation and at a federal level by the Department of Energy or the Army Corps of Engineers. Lime Energy does not participate at the prime level for any of these contracts, but we do work with seven of the 16 approved ESCOs by the Department of Energy. We are anticipating growing this business through expanding on existing relationships and developing new ones.

We're also -- we will also continue to develop business with customers who do not require performance contracting vehicles, like the US Postal Service and the work we are doing under the FRR contract for the United States Army Corps of Engineers. This is the most respected engineering group in the world. And we are extremely proud of the work we're doing for them, which includes the design of a lead gold-certified facility in Missouri.

Another accomplishment last year that we are extremely proud of is our work with utilities in delivering scalable megawatt reduction through energy efficiency. Lime Energy completed 2010 as the leading direct install program provider in the state of New York, due in large part to our role in National Grid's Small Business Energy Efficiency Program. Last year we delivered more than 50 million kilowatt hours of energy efficiency resources to over 1,800 small business customers in National Grid's Western New York service area.

As we continued to outperform our goals throughout the year, they were subsequently increased by National Grid. Lime was equal to the task, ultimately delivering nearly $16 million in energy efficiency upgrades for 2010. These are particularly impressive numbers considering we just started that initiative in the middle of 2009. In fact, all of our utility partners last year increased our kilowatt hour reduction goals based on our successful ramp-ups throughout the year.

Our work for New Jersey's Clean Energy Program also exceeded expectations. After completing 2010 as one of their leading performers in the New Jersey state-wide direct install program, we're now delivering more kilowatt hour reduction than any other firm in that program. Collectively for all our utility clients, we've delivered more than 80 million kilowatt hours of energy efficiency resources last year, enough to power over 7,200 homes.

This success not only highlights our unique capabilities and expertise in delivering megawatt reduction for utilities but also validates the small business direct install program design, which provides owners of small commercial and industrial buildings with a comprehensive package of cost-effective energy efficiency measures resulting in energy savings not typically captured in these type of facilities.

Owners get a seamless process for energy efficiency analysis and equipment replacement to reduce energy use and save operating cost. Utility incentives of up to 80% of the project cost are provided for energy efficient upgrades, including lighting, lighting controls, motors, refrigeration and HVAC. Lime Energy provides program marketing, project development and engineering, material procurement, database administration and turnkey project implementation in exclusive regions for these utilities.

So, we are helping our utility customers meet their energy efficiency resource standards and also helping their customers to reduce energy use, reduce their operating costs, upgrade their infrastructure and reduce greenhouse gas emissions. In addition to all that, the programs we started last year just in New York and New Jersey created more than 250 new jobs. So, regulators in Washington and at state levels are quickly realizing how powerful and successful these direct install programs are.

As I have said many times, the national focus is shifting from demand response to energy efficiency for permanent load and carbon reduction. Twenty-eight states have adopted energy efficiency resource standards requiring utilities to procure a portion of their overall load through energy efficiency. Our track record speaks for itself. And we look forward to rolling out our services to other utilities across the country.

Now, we are very excited about the new initiative we announced starting Lime Energy Asset Development or LEAD. When we move forward with a new business initiative we have three primary criteria, that there is significant existing customer demand, that we can leverage our platform to make it a growing, profitable business and that the initiative falls within our core competency. These are the criteria we had for the utility program management and FRR contract, which were two initiatives we started in 2009 and were significant contributors to our success last year.

It's also why we believe their growth will continue and why LEAD will become a success. LEAD was created to develop, manage and in some situations own energy-producing assets. These assets may include landfill gas to electricity, combined heat and power, onsite generation, solar photovoltaic, solar thermal, biomass and geothermal energy projects.

Most experts agree that the United States energy sector faces serious challenges unprecedented in its history. In particular, the electric power market faces an array of challenges and opportunities amid a rapidly changing landscape. New approaches to power production, cleaner energy, emerging technologies, along with a desire for energy independence and energy efficiency are becoming prevalent in a historically stable electric sector.

There are many drivers across our markets for renewable energy and onsite utility generation. C&I customers are looking to reduce operating cost, upgrade infrastructure, control energy prices and hedge against rising fuel costs. Utilities are looking to comply with renewable portfolio standards, while governmental customers are looking to monetize assets and comply with the Energy Policy Act of 2005.

Therefore, we believe there is significant existing demand for LEAD services. We also believe LEAD will be able to leverage our existing customer base and our platform of expertise in engineering, implementation and project finance, resulting in a growing, profitable business with recurring revenue.

I should note here that, although we did utilize our own capital for the purchase of Zemel Road landfill gas rights, we will look to finance future projects without side tax equity investors. Jeff will go into this transaction in more detail as well.

But, finally, our core competency as with our businesses lies in the experience and expertise of our people. Eric Dupont was promoted to president of LEAD because he has the knowledge, experience and capability to grow this segment into a significant part of our business. Eric has been an important part of our senior management team since the acquisition of Applied Energy Management in 2008.

Prior to joining AEM, Eric was the director of structured finance for DukeSolutions/Ameresco where he developed, analyzed and financed numerous multimillion dollar renewable and traditional projects for a wide variety of industrial, commercial and governmental clients.

So, with that, I'll hand it over to Jeff to go over the financials.

Jeffrey Mistarz - *Lime Energy Co. - CFO*

Good afternoon, everyone. I'll be providing you with a quick overview of our fourth quarter and full-year financial results for 2010.

Our consolidated revenue for the fourth quarter of 2010 was $18 million or 89% when compared -- increased $18 million, or 89%, when compared to the fourth quarter of 2009. For the full year revenue increased $24.9 million, or 35%, when compared to 2009. All of our markets generated strong growth during the fourth quarter relative to last year.

As Dave explained, our C&I and public sector markets started out the year slowly with our C&I clients showing continued caution regarding significant expenditures and our public sector clients delaying projects while trying to sort out some of the uncertainty regarding available funding sources. These situations continued into the second quarter.

But conditions in the public sector market almost returned to normal during the third quarter with most of our previously delayed projects moving forward during the quarter. This continued into the fourth quarter resulting in good performance for this market during the second half of the year relative to 2009.

Poor weather conditions in the Northeast and Midwest, however, impacted some of our larger projects during the fourth quarter. So, revenue for this market fell short of 2009 on a full-year basis. Conditions in our C&I market did not begin to improve until late in the fourth quarter.

But the fourth quarter was the best quarter for this market in two years. The strength of the fourth quarter, however, was not enough to overcome the weakness earlier in the year. So, full-year revenue for this market also fell a little short of 2009 results. We believe that improved conditions we experienced late last year will carry into 2011, leading to better results for both the C&I and public sector markets.

Meanwhile, the two new initiatives we began during 2009 both performed very well during their first full year of operation. Revenue from these initiatives both grew steadily throughout the year and ended with strong fourth quarters. The utility program management business had a particularly strong fourth quarter as utilities we were working with put in a big push at the end of the year in order to meet their program goals. While we don't expect revenue from these two markets to increase as dramatically in 2011 as they did in 2010, we do expect continued strong growth from both markets.

Our consolidated gross profit increased $5.6 million, or 159%, during the fourth quarter of 2011 when compared to the same quarter in 2009 and increased $7.5 million, or 54.7%, for the full year. Our gross profit margin was 23.6% for the fourth quarter of 2010, as compared to 17.2% for the fourth quarter of 2009. And our gross profit margin for the full year was 22% versus 19.2% for 2009.

Increased margins from our C&I market in combination with contributions from our new utility management business drove these increases in gross margin. Our future consolidated gross margins will depend in part on the mix of business, which is expected to vary throughout the year. We expect our gross margin to start out low during the first quarter of 2011 when our C&I business is at its seasonal low and build throughout the year, ending on full-year basis at about the same level achieved during 2010.

Our SG&A expense for the fourth quarter of 2010 was $7.1 million, a reduction of $332,000, or 4.5%, when compared to the same period in 2009. For the full year our SG&A increased $1.9 million, or 8.1%, to $25.9 million. All of the growth of our SG&A was related to our new business initiatives. And a portion of this expense was incurred in advance of any revenue generation as we staffed up to execute under new programs.

This increase in SG&A was offset by steps we took early in 2010 to reduce the SG&A associated with our C&I and public sector markets when it became apparent that these markets were likely to be flat to down for the year. Our consolidated SG&A was 18.5% of revenue during the fourth quarter of 2010, compared to 36.6% of revenue during the fourth quarter of 2009. On a full-year basis our SG&A was 27% of revenue, compared to 33.8% for all of 2009.

We expect our SG&A to grow a little faster -- at a little faster rate during 2011 than it did during 2010 as we incur a full year of expense associated with our new business initiatives, support continued growth in our new business initiatives and invest in a few key positions to strengthen our organization. While we anticipate the growth of our SG&A expense to increase during 2011, expect that -- we expect the growth of our revenue will continue to outpace the growth of our SG&A expense, resulting in further reductions in our SG&A as a percentage of revenue.

We earned net interest income of $43,000 during the fourth quarter of 2010, compared to incurring net interest expense of $259,000 during the prior year fourth quarter. For the year we earned $172,000 of net interest income, compared to incurring $3.1 million of net interest expense during 2009. We paid off or converted almost all of our debt during 2009 following our follow-on public offering, leaving the Company virtually debt free.

The combination of higher revenue, increased gross margins, lower SG&A expense and elimination of one-time charges resulted in our net income improving from a loss of $6.5 million during the fourth quarter of 2009 to a net income of $1.9 million for the fourth quarter of 2010. For the year our net loss was $5.2 million, compared to a net loss of $18 million in 2009.

The 2009 results included a $2.6 million impairment charge related to the write-off of the [Parke] trade name, which was partially offset by a $1 million tax benefit associated with the write-off. 2009 also included a $1.8 million loss associated with discontinued operations.

Our adjusted EBITDA was $2.3 million for the fourth quarter of 2010, compared to a loss of $3.4 million for the fourth quarter of 2009. For the full year our adjusted EBITDA loss was $3 million, compared to a loss of $7.8 million for 2009. Adjusted EBITDA is a non-GAAP financial measure we are providing because we believe that it provides a meaningful comparison of operating results to prior period results.

For information on the calculation of adjusted EBITDA, please refer to our earnings announcement, which is available on our Form 8-K filed this afternoon. You can access this on the SEC's EDGAR website or through our website.

Quickly turning to our liquidity position, we ended 2010 with $14.9 million in cash, a decline of $8.5 million from the $23.4 million at the end of 2009. These year-end cash balances included $1.9 million and $0.5 million of restricted cash, respectively.

This restricted cash was pledged to support the issuance of surety bonds required for some of our public sector jobs. Approximately $0.5 million of this was released shortly after the first of this year. And the balance is expected to be released within the next six months.

Of the $8.5 million in cash consumed, approximately $2.8 million was consumed by our operating loss. $1.4 million was used to support working capital needs. Of the balance, $2.6 million was used to purchase the Zemel Road gas rights. Approximately $900,000 was used to begin construction of the Zemel Road generating facility. And $650,000 was for other capital expenditures, a good portion of which was related to new offices and equipment for the new utility program management business.

Regarding the Zemel Road project, we are currently working to raise approximately $7.5 million of long-term debt for this project. The project should also qualify for about a $2 million renewable energy treasury grant, which we anticipate receiving approximately 60 days after the generating facility goes online. Right now we believe that this will happen late this summer, which means we would receive the treasury grant in the third or fourth quarter of 2011.

We hope to close on the long-term financing within the next 60 days. These two sources of funds will allow us to reimburse ourselves for the majority of the funds currently invested in this project, leaving us with a net equity investment of less than $1 million.

We believe that our operations will generate cash on a full-year basis during 2010. And we don't currently anticipate utilizing significant amounts of cash to fund future projects such as Zemel Road. Therefore, our primary future cash requirements should be for working capital and a modest amount of capital expenditures. We believe that our current cash reserves should be adequate to meet these expected future needs.

However, as additional insurance against unanticipated future working capital needs, yesterday we closed on a $7 million revolving line of credit with our current mortgage lender, American Chartered Bank. We believe that this, combined with our current cash balances, should provide adequate liquidity for the foreseeable future.

With that, I'll turn it back over to Dave.

David Asplund - *Lime Energy Co. - CEO*

Thanks, Jeff. These numbers really confirm the operating leverage and underlying strength of our business model. I think they're even more impressive given revenue from our C&I and public sector markets were down slightly for the year, but revenue grew substantially for the two new business initiatives we began in '09.

With the addition of LEAD, this diversity we have across our platform provides the capability to focus on areas of immediate growth while strategically positioning our solutions and services [and] those areas that are poised for growth. In the long run it is this flexibility that will deliver value to our investors with lower risk.

In looking forward we expect our total revenue to be between $122 million and $128 million with an adjusted EBITDA of between $1 million and $2 million. This would represent about a 27% to 34% increase in revenue and a $4 million to $6 million increase in adjusted EBITDA over 2010. We expect our first quarter revenue to be in the range of $16 million to $17.5 million. And we have a current backlog of about $90 million.

As I said at the beginning, sustained profitability is our overriding objective. We have build a platform that provides a broad array of energy efficiency and renewable energy solutions for a diversified base of clients to deliver sustainable profitability. The power of this platform is now becoming evident in our financials.

What doesn't show, however, is the real underlying power of the platform, which lies in our customers and our employees. Every day we are working together to solve some of the world's most vexing problems by reducing energy use, reducing unnecessary costs and reducing air pollution from greenhouse gas emissions. We are proud of what we do. And we are proud we're proud of the value we're building for our shareholders.

So, with that I will open it up to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). And our first question comes from the line of Philip Shen with Roth Capital Partners. Go ahead.

Philip Shen - *Roth Capital Partners - Analyst*

Good afternoon, everyone. I'd like to start off by saying congratulations on your first GAAP profit.

Unidentified Company Representative

Thanks.

Philip Shen - *Roth Capital Partners - Analyst*

And as for my first question, it's related to your outlook. You're guiding for $120 million to $128 million. Can you give us a sense for what the mix of the businesses might look for the full year?

Jeffrey Mistarz - *Lime Energy Co. - CFO*

I don't think that's going to change a whole lot from what we achieved this year. We do expect continued growth in our utility business and FRR business, those two new initiatives. But we're also expecting growth in our C&I businesses and public sector businesses. I guess there will be a slight shift to the utility management business, as we expect that one to grow faster than our other businesses. But on balance it won't be a huge shift from what we achieve this year.

Philip Shen - *Roth Capital Partners - Analyst*

Great. And let's move on to one of the segments, C&I. I heard the commentary that you guys gave on the call about the segment. And I wanted to just get some more color. From my perspective there seems to -- there's been a lot of talk about capital sitting on the sidelines for low or short payback type projects. And it seems to me with the economy improving and so forth that this segment will -- has a possibility of doing relatively well this year.

I know -- I think Dave mentioned that the future looks quite bright for this segment. Can you give us a sense for organically what is it that you're experiencing with your customers now? Are they asking for more? And can you give us just some commentary on this segment, please?

Unidentified Company Representative

You want to do that?

Jeffrey Mistarz - *Lime Energy Co. - CFO*

Yes. Money still -- there's still a little confusion going out there with the C&I customers. Also, it's getting a little bit more complex. You've got -- it's not just all about energy efficiency now. It's about sustainability, carbon reduction. And it's taking a little bit longer to educate the customer on that. It's also creating higher revenue opportunities though. But it's -- I would say it's lengthening the sales cycle a little bit.

So, rather than just going in there with an energy efficiency measure and talking about ROI we're doing a little bit more comprehensive work, which makes it a little bit more difficult for competition to do that, requires a little bit more skill. It takes a little bit longer. But that's where the industry is moving because they want to know about sustainability, energy efficiency, the state of their existing building. So, that's where we see it going.

Unidentified Company Representative

But also to your point it's been -- it has been a market that's been -- for us it's been flat for the last couple of years. Now, the recession really, really impacted capital expenditures where typically C&I customers would have a three-year payback criteria. And during '09 it got down as low as -- some people were deferring one-year payback.

That -- we are beginning to see that expand and, as Dan said, beginning to look -- not only expanding beyond one, but expanding back to two. Some people have three. It all -- in their capital criteria. So, they are beginning to spend more. So, it's not an open spigot. But it is -- there's a fine line between energy efficiency and infrastructure upgrade.

And for the last two years a lot of companies have done nothing. And, yet, their facilities are getting older. Their equipment is getting older and older and older. So, the cycle has -- we think it's turned. And we're seeing a pickup there.

Philip Shen - *Roth Capital Partners - Analyst*

Great. And just to highlight that just a moment here I want to turn to the recent credit agreement that you guys put in place. Can you give us a sense for historically -- have you had one like this in -- on the books? And, if not, does this in some way underscore the type of growth that you might see ahead?

Jeffrey Mistarz - *Lime Energy Co. - CFO*

We haven't had a line of credit probably in eight year at least. We funded the business, the majority of our existence, through the issuance of equity. This is really an important step for us, to be able to get bank financing. I think that it shows confidence in the banks in our future. And they've seen the progress that we've made and feel confident that we do have a business platform here that looks like it's poised for continued growth.

We actually -- we're pleased that late last year we had several banks approach us with proposals for providing a line of credit. And our existing relationship with American Chartered really proved valuable. They stepped up and presented us with an attractive alternative, which we accepted and closed yesterday.

Philip Shen - *Roth Capital Partners - Analyst*

Great. Thanks again for answering my questions. And congratulations again on your first GAAP profit.

Unidentified Company Representative

Thanks.

Operator

Our next question comes from the line of Craig Irwin with Wedbush Securities. Go ahead.

Craig Irwin - *Wedbush Securities - Analyst*

Good evening gentlemen, congratulations on the quarter.

Unidentified Company Representative

Thanks, Craig.

Craig Irwin - *Wedbush Securities - Analyst*

The first thing I wanted to drill down on is the bookings in the quarter. It looks like you had a significant acceleration in awards during the fourth quarter when this is a quarter where you usually burn down backlog a little bit. Just doing my math, it looks like bookings accelerated by about $20 million, from $24 million to $44 million in the fourth quarter.

Can you give us a little bit of color on what's in the backlog? What came in during the fourth quarter? And just confirm for us that this does not include the scope that you would have to define for the Post Office contract, which obviously is something you're going to be working on in 2011.

Jeffrey Mistarz - *Lime Energy Co. - CFO*

Well, our backlog strengthened in all of our markets. Our public sector market has their -- one of their strongest backlogs entering the year. Our C&I market has a very strong backlog, which is very unusual coming into the first quarter. And our utility business got some expansions contracts, increases in contracts, which also contributed to the increase in our overall backlog. So, it -- I'm glad you realize that after a strong fourth quarter to maintain our overall backlog level is really pretty good coming into the year.

Craig Irwin - *Wedbush Securities - Analyst*

Great. And just to ask a couple questions about the post office contract you announced fairly recently, I know that you've been working with the Post Office really for a number of years for -- well, years back was through (inaudible) and now directly. Can you give us an idea, if you were to define all $19-and-change million in scope that's available to you, how much growth this would represent over what you did in 2010? And would this be something like 100% growth with the post office? And did you do north of $10 million with the post office in 2010?

Jeffrey Mistarz - *Lime Energy Co. - CFO*

We got our awards throughout the year with the post office. Our first territories were awarded early in the year. And then we received new more territories throughout the year. So, the total available territories increased throughout the year. And these are basically hunting licenses to go into these territories and find opportunities for energy efficiency upgrade with the post office. So, it was the first year that we were doing direct work with the post office.

We expect that we will see more work from them this year. We obviously have significant opportunities in all these territories that combined, I believe, is over $50 million in opportunities available through the post offices in all these territories. But these again are hunting licenses. And it's up to us to go out now and find the actual locations where we can implement and meet the Post Office's criteria for saving.

Craig Irwin - *Wedbush Securities - Analyst*

Great. And just to touch on your guidance, just incrementally it looks like your -- the midpoint of your range suggests something like $30 million plus or minus in incremental revenue year over year.

Obviously, with the ramp at the Post Office, the ramp on the utility energy efficiency programs that you're implementing, the ramp with the Army Corps, it looks like that number, if we were to divide it equally, could fairly easily accomplished between those three programs. What sort of natural underlying growth do you expect on either the institutional side or the C&I side in your 2011 reveneu guidance?

Jeffrey Mistarz - *Lime Energy Co. - CFO*

First of all, we're not counting on our number right now on significant increase in FRR. There's -- that's all dependent on the RFQs -- RFPs that come out from the Army Corps of Engineers. And that's really outside our control.

We have three contracts that we're working on right now. That's basically all we're counting on for 2011 revenue. Now, there will be hopefully RFQs coming out. Hopefully we will our share of them. And hopefully they will generate some revenue in 2010. So, there is upside potential in that area. But we are not counting on any of that in our guidance right now since we don't have those in hand.

But we are expecting moderate growth in our C&I and public sector markets. We think they both have the potential for some good strong growth. But in terms of our guidance we have I think been fairly realistic and conservative in terms of the expectations in those markets. We do expect continued good growth in our utility market under programs that we currently have. And then there's upside potential there as well if we are to win some new contracts in new markets in that market.

Craig Irwin - *Wedbush Securities - Analyst*

Great. And then in the first quarter do you expect to do a significant mix of implementation work or is this something that's pretty much behind the Company as an activity that Lime took on in the past over the last several quarters to preserve capacity and really maintain the team that you had put together?

Unidentified Company Representative

I'm not sure that I really understand your question. The first quarter mix --

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Craig Irwin - *Wedbush Securities - Analyst*

Maybe I can rephrase it and --

Unidentified Company Representative

Sure.

Craig Irwin - *Wedbush Securities - Analyst*

-- make it more straightforward. So, in the past one of the things that's mixed down margins and one of the strategic actions you took to preserve capacity, basically keep your crews and your engineers employed during a couple rough quarters was to take on some implementation work, some lower margin work that was available in the market that you wouldn't ordinarily pursue. And I understand that that's something you were hoping to move away from over the next couple quarters. With the strong margins this quarter, obviously there was not a large contribution.

But I was wondering if you could comment for us whether or not you expect to do much implementation work in the first quarter that might mix down margins or if this is really something that's not necessary for you to pursue in your market to keep your crews busy between more profitable jobs.

Jeffrey Mistarz - *Lime Energy Co. - CFO*

Well, we have some local implementation work that's carrying over -- that will carry over into 2011, some sizeable contracts there. But we're not really focusing on adding those types of contracts going forward. We have a lot of development work going on in public sector markets that we're hoping is going to bring in more traditional public sector type work and less of the local contracting work.

Our first quarter, as I mentioned, is traditionally our lowest margin quarter just because of the mix of business having a higher percentage of public sector work and a lower percentage of C&I work. So, the first quarter margins will dip as they have historically during the first quarter.

Craig Irwin - *Wedbush Securities - Analyst*

Great. And then one more question if I may. Can you update us on the largest contract that you're completing right now? How big is that? And what's your bonding capacity? How big a project do you think you could potentially take on?

Jeffrey Mistarz - *Lime Energy Co. - CFO*

Our largest contract right now would be with the FRR, with the Army Corps of Engineers. That is the LEAD Gold Visitors Center that we are constructing in Branson, Missouri. That project is expected to be completed this year toward the -- probably in the fourth quarter of this year. So, it'll be an active construction project for most of the year. What is it? About $8 million? Is that $8 million?

Unidentified Company Representative

Yes. I think it's up around --

Unidentified Company Representative

$8 million or $9 million

Jeffrey Mistarz - *Lime Energy Co. - CFO*

Yes. It's about an $8 million or $9 million contract right now. Our -- we have adequate bonding capacity right now. And we have a $50 million bonding capacity with an opportunity to increase that as needed. So, we are not right now stressing our bonding capacity. So, we feel that we have adequate capacity.

Craig Irwin - *Wedbush Securities - Analyst*

So, just to tack something in there, so if we do see a flourish of the Federal work, the stuff funded off the IDIQ (inaudible), bonding capacity -- should we expect this not to be an issue as far as your ability to capture some of these projects that have been lingering for several quarters now?

Jeffrey Mistarz - *Lime Energy Co. - CFO*

No. I don't expect bonding capacity to be an issue right now.

Craig Irwin - *Wedbush Securities - Analyst*

Fantastic.

Unidentified Company Representative

And it really -- it never has. It wasn't part of the lingering whatever you said. It's --

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Craig Irwin - *Wedbush Securities - Analyst*

No. Well --

Jeffrey Mistarz - *Lime Energy Co. - CFO*

It's one of our competitive advantages, actually, our bonding capability.

Craig Irwin - *Wedbush Securities - Analyst*

And since we mentioned the projects, the ESPC projects that were lingering in the market, other suppliers in the market are starting to mention that they're starting to see projects really move forward. And many of these projects get financed through more traditional mechanisms.

Are you executing on more contracts now that are seen funded off the stimulus plan or projects that got stalled by the stimulus plan finally actually moving forward to generate revenue in 2011?

Jeffrey Mistarz - *Lime Energy Co. - CFO*

All of our projects pretty much broke loose last year in the third quarter. And we do have some (inaudible) funded projects that we are executing under. So, it's kind of a mixture.

Craig Irwin - *Wedbush Securities - Analyst*

Great. Congratulations again on this solid quarter.

Unidentified Company Representative

Thanks.

Operator

(Operator Instructions). Our next question comes from the line of Eric Glover with Canaccord. Go ahead.

Eric Glover - *Canaccord Genuity - Analyst*

Hello. Good afternoon. I just wanted to clarify your SG&A guidance for 2011. Did you say that SG&A expenses would grow at a similar rate that they grew in 2010?

Jeffrey Mistarz - *Lime Energy Co. - CFO*

No. We said we expected them to grow a little faster than they do in 2010. We've got continued growth in our new initiatives that we'll be supporting. And we are making some investments in some key individuals that we think will help to strengthen the overall organization in some key areas. So, that'll increase our SG&A slightly above what we incurred this year, but still significantly lower than what we expect in terms of revenue growth.

Eric Glover - *Canaccord Genuity - Analyst*

Okay. Great. And then there was some talk about how customers are taking on deeper and more comprehensive energy solution projects. Can you talk about what that means generally for your margins and the C&I business?

Unidentified Company Representative

As related to margins?

Eric Glover - *Canaccord Genuity - Analyst*

Yes.

Unidentified Company Representative

The margins should stay about the same. We don't expect to see a big dip in the margins. It sometimes affects the payback a little bit because if you [make] some measures it increases the value of the project. It may push the payback out a little bit more. But customers, as I said earlier, are looking at it little different. They're not just looking at payback.

They're looking at -- they're looking for what is the shape of their assets, what are they doing to become sustainable as it relates to the sustainability they have to prove to their vendors and to Wall Street. So, it's a mix. But the short answer is we don't expect by adding another measure that it's going to reduce our margins.

Eric Glover - *Canaccord Genuity - Analyst*

Okay. I was actually thinking that it might improve the margins. So, you're saying it will be basically neutral to margins --

Unidentified Company Representative

Yes. Because some of those measures -- it does effect that payback. It's not just payback. But some of them -- for instance, if you had a two-year payback, and you added another measure, that measure may be five years. So, we may in some instances lower our margins on those to make the whole project look a little bit more attractive.

Eric Glover - *Canaccord Genuity - Analyst*

Okay. Thank you very much.

Operator

Ladies and gentlemen, I show no further questions at this time. I'd like to turn the call back over to David for closing remarks. Please, proceed.

David Asplund - *Lime Energy Co. - CEO*

Okay. Well, thank you, everyone, for spending the time this afternoon to hear the call.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. That does conclude the presentation. You may disconnect. Have a wonderful day.