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Conference Call Transcript

LIME - Lime Energy Co. Acquires Applied Energy Management, Inc. Conference Call

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Glen Akselrod

Lime Energy - Spokesperson

David Asplund

Lime Energy - CEO

John O'Rourke

AEM - CEO

Dan Parke

Lime Energy - COO and President

Jeff Mistarz

Lime Energy - CFO

CONFERENCE CALL PARTICIPANTS

Craig Irwin

Merriman - Analyst

Jeb Dunham

Analyst

Rod McCrea

Johnson Controls - Analyst

Richard West

J.M. Dutton - Analyst

Kent Holden

Holden Asset Management - Analyst

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the AEM Acquisition Conference Call. My name is Erica and I will be your coordinator for today. At this time, all participants are in listen-only mode. We will be facilitating a question-and-answer session towards the end of this conference.

(OPERATOR INSTRUCTIONS)

As a reminder, this conference is being recorded for replay purposes. I would now like to turn the presentation over to your host for today's call, Mr. Glen Akselrod, spokesperson. You may proceed, sir.

Glen Akselrod - Lime Energy - Spokesperson

Thank you, Erica. Good afternoon, and thank you, everybody, for taking the time to join the AEM acquisition conference call. On the call today will be Mr. David Asplund, Chief Executive Officer, Dan Parke, Chief Operating Officer and President, Jeff Mistarz, Chief Financial Officer, and John O'Rourke, CEO of AEM.

Before I hand the discussion over to David, I want to remind everyone that our 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 in the June 11th AEM acquisition press release, which is incorporated by reference by 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 that this call is being broadcasted live over the Internet and can be accessed at the Company website and also on Thomson CCBN Financial Network. There will be a replay available on either website until September 12, 2008. With that, I'll hand it over the discussion over to David.

David Asplund - Lime Energy - CEO

Thank you, Glen, and good afternoon, everyone. Thanks for taking the time out for this call. We are extremely pleased and excited to have announced, last week, the addition of Applied Energy Management, or AEM, to the Lime Energy team. AEM is a 24-year-old, growing, profitable company, which designs, engineers, and constructs projects that improve energy efficiency and reduce carbon emissions, thereby helping their clients reduce operating expenses and meet their growing and stringent sustainability goals.

The company's services include energy engineering and consulting, energy-efficient lighting retrofits, water conservation, mechanical and electrical conservation, and renewable project development and implementation.

AEM provides these services primarily through energy service companies for a federal, state, and municipal government agencies and utilities. With offices throughout the east coast, they are a perfect compliment to Lime Energy's national sales platform that works with commercial and industrial customers.

This is truly a landmark acquisition for our Company and our shareholders. We expect to be accretive with many opportunities for synergy by leveraging each company's strengths and reducing operating costs through scale and efficiencies.

AEM's growth over the last three years has been spectacular, increasing 168% from \$15.4 million in 2003 to \$41.4 million in 2007. With almost 200 employees and offices from Massachusetts to Florida, this acquisition nearly triples the size of Lime Energy in terms of pro forma revenue and employees.

More importantly, it greatly expands our national platform, serving a larger customer base, significantly expanding our energy engineering expertise, and increases the energy efficiency services we provide to include water conservation, mechanical and electrical conservation, and renewable project development and implementation. We believe each of these areas have tremendous growth potential in their own right.

Water conservation is an increasingly important environmentally efficient activity that provides meaningful energy and environmental cost savings. In addition to the savings associates with the cost of water, other related savings opportunities include reduction in sewer costs and reduced domestic hot water expenses. Water conservation opportunities produce not only dollar savings but environmental savings, as well, and decrease the fossil fuel fire domestic hot water usage contributes to carbon emissions in the atmosphere.

Additionally, reduced contribution to a city's sewer system means that less waste has to be filtered at a treatment facility, reducing sewer cost and environmental impact. Water conservation has been a key savings driver for projects AEM has done for public housing authorities across the country, as well as the U.S. Coast Guard.

Mechanical and electrical conservation services include the development, design, analysis, implementation, and commissioning of mechanical and electrical efficiency projects at clients' facilities. These services are performed in partnership with energy service companies to establish an energy efficiency project which meets the owners' objectives while meeting acceptable profitability and risk minimization thresholds.

AEM also develops and implements renewable energy projects. These projects include an array of technologies implemented, which include solar heat recovery, solar photovoltaics, geothermal heating and cooling through thermal heat pumps, and implementation of a biomass boiler, utilizing woodchips as a fuel source.

As exciting as all of these new services, customers, and geographic presence are, the most important part of this entire transaction is the incredible team of people joining Lime Energy. We understand the true assets of any company are the people. So with AEM, we have hit a grand slam.

Most of the senior management-held positions at Duke Solutions, where they're responsible for the development and building of hundreds of millions of dollars in energy efficiency projects, there isn't enough time in the day to go through the experience and expertise of just the senior management, but I'll give you some brief highlights.

John O'Rourke, who is the President and CEO of AEM, and on the call with us, joined AEM in 2004 and has been responsible for leading much of the recent growth in the company. Prior to joining AEM, John was the Vice President of Engineering and Operations at Duke Solutions, which is a Duke Energy subsidiary, or was, which is one of Lime Energy's actually largest shareholders. In 2003, he purchased Landmark Mechanical Services from Public Service Electric and Gas and merged it with AEM in 2004.

Jim Smith, who is a Vice President of Energy Services, has more than 18 years in electrical, mechanical, environmental, chemical, and energy engineering. With a Bachelor Science in electrical engineering from NC State, Jim spent his first eight years as a plant engineer with Burlington Industries and six years as Director of Engineering and Operations with Duke Solutions, which was then acquired by [Amaresco], joining AEM in 2004, as well.

[Tom Hurley] is the President of their Engineering group has over 24 years in providing engineering feasibility studies for industrial, commercial, and institutional clients, nationwide. His expertise includes a wide range of comprehensive energy audits, investment-grade cost reduction studies, energy systems maintenance, and operations and analysis, project design, project management for retrofit upgrades, and new construction. Previously, Tom was a Director of Engineering and Operations for Duke Solutions. He started his own consulting firm in 2002 and joined AEM in 2004.

[Kyle Marshall] is their Vice President of Sales and Marketing. He joined Duke Engineering Services, which was later to become Duke Solutions, where as the top sales producer for the company. Prior to that, he worked for seven years at Honeywell.

And then, [Eric DuPont] is their Chief Financial Officer. Prior to joining AEM, Eric was the Director of Structured Finance of Amaresco, responsible for structuring over \$400 million of energy projects, including traditional performance contracting and private utility and landfill gas projects. Prior to that, Eric was with Duke Solutions and then KPMG Peat Marwick.

These are only a few of the almost 200 people at AEM. But, needless to say, we believe the intellectual capital joining Lime Energy is priceless. Now, in terms of hard dollars though, the acquisition price consisted of \$3.5 million in cash, 882,725 shares of Lime Energy common stock, and the assumption of approximately [\$5.0] million in debt, of which about \$3.8 million was outstanding on their working capital line. In addition, there is an earn out for the sellers based on certain revenue and EBITDA targets, which could pay an additional million in cash and million in stock.

Financing for this transaction was provided through an \$8-million increase in the existing line of credit with our Chairman, Mr. Dick Kiphart. This is a definitive and extremely important vote of confidence by our Chairman and largest shareholder, both in this acquisition, the AEM team, and the overall future of Lime Energy.

Combined, we represent a truly formidable force in the marketplace, providing a diversified array of desperately needed energy-efficiency services and technologies on a truly national platform. With that, let me open it up to questions.

QUESTION AND ANSWER

Operator

(OPERATOR INSTRUCTIONS).

Your first question comes from the line of Craig Irwin from Merriman. You may proceed.

Craig Irwin - Merriman - Analyst

Congratulations, gentlemen. Pretty amazing acquisition here.

David Asplund - Lime Energy - CEO

Thanks.

Craig Irwin - Merriman - Analyst

First question I wanted to ask you, obviously, AEM has had some pretty good growth in the past. But can you comment a little bit about the seasonality in the business and the near-term sort of growth dynamics, what's been going on over the last few quarters and how you see things progressing over the rest of the year?

David Asplund - Lime Energy - CEO

Sure, I'll take that, Craig. The AEM business is somewhat seasonal, like ours, but not nearly as seasonal as our business is. You'll see their business peak in the third and fourth quarters and decline. Their lower quarters would be their first and second, but not nearly to the degree that our existing business fluctuates, so it'll help to smooth us out to some degree.

Craig Irwin - Merriman - Analyst

Okay, Jeff. And can you talk a little bit about the profitability of the business? I mean, what sort of margins have they had, historically, and where do you see them from a profitability standpoint over the next few quarters?

David Asplund - Lime Energy - CEO

Well, I don't really want to talk about profitability right now. The Company is going through audits that are required for our historical and pro forma disclosures, but other than to say that their margins are similar to ours.

We hope that through the combination of the two companies, we will see some synergy improvements, overall, in both of our margins. But the growth margin is in line with what we have experienced, or expect to experience.

Craig Irwin - Merriman - Analyst

Okay, excellent. Excellent. And I noticed the geographic base that you mentioned, going from Massachusetts down to Florida, differs somewhat from that of Lime. Can you give us a little bit more color about really the geographies where AEM is particularly strong and maybe an idea of sort of where some of the main offices are for the company?

David Asplund - Lime Energy - CEO

Well, John, you want to take that? And Dan can address the overall geographic?

John O'Rourke - AEM - CEO

Sure. AEM is currently headquartered in Charlotte, North Carolina, with offices also in Greensboro, North Carolina, in Saddlebrook, New Jersey, Allentown, Pennsylvania, and Fort Lauderdale in Florida, including Lee, Massachusetts.

Craig Irwin - Merriman - Analyst

Excellent, excellent. And then, is there any plan or timeline, potentially, where we could see sort of cross offering of services, like the water and mechanical conservation services that you mentioned. Is there a potential for those to be offered to existing Lime client? How do you see this playing out?

David Asplund - Lime Energy - CEO

Dan, you want to address that?

Dan Parke - Lime Energy - COO and President

Yes, well, back to the question on the geography, one of the things that Lime has been working on is national accounts, scalable large national accounts. And where we had our existing offices and where the northeast, minor the northeast and the Midwest, very strong in the west, so we were getting a lot more opportunities.

A lot more of our clients, national accounts, had multiple offices and a lot were in the southeast and it was getting awfully hard for us to service them and maintain our margins. So, as far as the geography question, we are now strategically located throughout the United States, exactly where we need to service large corporate accounts. I didn't -- what was the second question?

David Asplund - Lime Energy - CEO

Regarding cross selling product or services to our existing CNI customers.

Dan Parke - Lime Energy - COO and President

The cross selling, I think we've talked in our last few conferences, but one of the things that we've really been trying to beef up is looking at the low-hanging fruit, the thing that makes the most sense to the customers, and lighting and engineering and mechanical has been what Lime has been working on. But AEM, with strong engineering services, much stronger in mechanical and also bringing water, just opens up our portfolio.

And I think the other thing to note is that Lime heretofore has been working strictly with the CNI customers' negotiated sales where AEM is going through the government sector through large [escrows], and I think we will be able -- Lime will be able to support that offering into that marketplace and they will be able to help us into our existing client base.

Craig Irwin - Merriman - Analyst

Excellent. And could you talk a little bit about the diversity of their clients? I mean, approximately how many they have and if there are any large clients that are particularly important for them?

David Asplund - Lime Energy - CEO

John, you want to answer that?

John O'Rourke - AEM - CEO

Yes, sure. Our clients are predominantly energy-service companies, which would be large controls companies, some utilities in the southeast, and some utilities in the northeast.

Craig Irwin - Merriman - Analyst

Okay, okay. Excellent. And is there any customer overlap at all between the two companies?

David Asplund - Lime Energy - CEO

No, that's the beauty.

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Craig Irwin - Merriman - Analyst

Excellent, excellent. Well, congratulations, gentlemen. Looks like a real homerun here.

David Asplund - Lime Energy - CEO

Thank you.

Operator

Your next question comes from the line of [Jeb Dunham]. You may proceed.

Jeb Dunham Analyst

Hi. Good afternoon. Could you talk about sort of the hole in your pipeline that this fits? And maybe, are there any additional holes that you're looking to fit, going forward?

Jeff Mistarz - Lime Energy - CFO

The holes that it -- yes, as I said earlier is that as we have grown our national sales platform over the last year at Lime, we've worked very hard on hiring and training national salespeople to work on large scalable accounts and what we have found out, that as we, that as customers are trying to get ready for sustainability, they need to know more than what's accessible to them besides lighting and mechanical.

So, with AEM, it allows us to really focus on all the things that are important to a building as it relates to energy, as it relates to sustainability. And then, again, the big thing is the geographic. It's very difficult to send people from the Midwest or California to the southeast and the travel time, the air time, just the knowledge and experience that all these people bring and where they are really fills up our holes very nicely.

Jeb Dunham Analyst

Okay. Is there any holes, going forward, that you still want to fill or is this pretty much you got what you need, going forward?

Jeff Mistarz - Lime Energy - CFO

We have enough, going forward, to keep our plate very busy. We're obviously going to keep looking at technologies and if we can do a good job on implementation, the sales, the explaining, we feel that technology will come to us if we are a very strong sales, marketing, and implementation company with a strong engineering base.

So, if we can help our customers grow into the sustainability with the offerings that we have now, which we do believe, as we exist today, that we've got considerably the low-hanging fruit covered, technology and offerings are changing everyday so that's one of the things is to stay on top of it and go back into our customers and constantly help them become more efficient, which is critical, I think, for not only -- what I think is happening today, corporate America gets a little confused with what going green means.

They sometimes think it costs them money, but, really, by being efficient, by the very nature that we're efficient, it means to reduce their cost. So, we believe that we're doing two things out there. We're doing a lot to help our world go green and we're also doing a lot to help corporate America reduce operating expenses and make them more financially viable.

Jeb Dunham Analyst

Okay. And just one follow-up question, who would you consider to be your top two or three competitors?

Unidentified Company Representative

We've got competition in every single aspect of what we do, but there is very little -- it's very hard -- it's just, we're not sure -- we can't think to come up with anyone who does everything with what we do. I mean, for AEM, obviously, they compete against other companies that provide services to the escrows, and this acquisition gives them more capital, more access to capital and a more national platform, and in order to be able to service and provide the escrows to an even greater extent.

In the CNI, it's the same ones that have always been out there, the small regional engineering consulting lighting, retrofit, lighting maintenance, lighting product, but none of them really do all that we do. So that's, to our knowledge, there is no company, public or private, that really does what we do in its entirety.

Jeb Dunham Analyst

Okay. Congratulations. It looks like a fantastic deal for both companies.

Unidentified Company Representative

Thank you.

Operator

Your next question comes from the line of [Rod McCrea] from Johnson Controls. You may proceed.

Rod McCrea - Johnson Controls - Analyst

Yes. Good afternoon and congratulations. It does sound like a very, very good partnering here. My question was in regards to future growth areas. Are there considerations to move towards other energy conservation to supplement your current offering?

David Asplund - Lime Energy - CEO

Well, we basically look at a building and try to figure out what the best services are to help make it more efficient from rooftop to basement, and the engineering really helps us in that analysis. Lighting, HVAC, mechanical, electrical, and to a smaller extent, renewable, we've got a lot of them covered.

Dan mentioned that we've got technologies companies coming to us and we do. I mean, we've got, whether we do this through acquisition, partnership, referral agreements, joint marketing agreements, there's always the facility software, refrigeration, cogeneration, solar, [PV] installation, and I'm talking mostly in the CNI area here.

Those are always out there. We don't have to own it or acquire it. We use best of practices anyway, but one of the benefits of being what we are is that we're not selling product. We are not locked in any one technology, other than VHVAC technology that we own, which we're not agnostic, we're evangelical about, but there's just an enormous amount of growth opportunity in the services that we're providing right now, let alone what we could add down the road.

Rod McCrea - Johnson Controls - Analyst

Okay. It sounds like what you're saying is you're certainly open to suggestion and looking forward, depending on what opportunities might present themselves, would you be self-performing of other considerations of something like building weatherization?

Jeff Mistarz - Lime Energy - CFO

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We don't currently have that capability. It's not really something that we're focusing on at this time but it's something that, I guess, we'd be open to considering.

Rod McCrea - Johnson Controls - Analyst

Well, again, thank you and congratulations.

David Asplund - Lime Energy - CEO

Thanks.

Operator

Your next question comes from the line of Richard West of J.M. Dutton. You may proceed.

Richard West - J.M. Dutton - Analyst

Thank you. I thought I was pretty fast on the finger but I guess I wasn't. I ended up in the bottom of the hole. So, I'll just say Craig covered a lot of the questions very well. I'll just say congratulations and also the way you covered everything in this conference call was very positive. So, I'll just keep looking and thank you very much.

David Asplund - Lime Energy - CEO

Thank you. Erica?

Operator

Your next question comes from the line of [Nick Phillips] from Holden Asset Management. You may proceed.

Kent Holden - Holden Asset Management - Analyst

Yes, this is Kent Holden for Nick. First of all, congratulations. This looks like a real good deal. Secondly, I wanted to ask, I know you can't talk directly about the numbers but you did say it would be accretive?

Jeff Mistarz - Lime Energy - CFO

Yes, we believe it will be accretive.

Kent Holden - Holden Asset Management - Analyst

Okay. And I assume, as a private company, they had some expenses that wouldn't normally be ongoing in a public entity. Will you be putting out some type of pro forma numbers that we'll have a chance to look at?

Jeff Mistarz - Lime Energy - CFO

We will put together pro formas and historicals.

Kent Holden - Holden Asset Management - Analyst

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Okay, great. And then, I believe one of your groups, the energy technology group, was somewhat of a laggard. Will there be some synergies here that you'll be able to take advantage of to boost that group up?

Dan Parke - Lime Energy - COO and President

Well, we certainly hope so. Maybe, John, you can address this, but we have been selling our HVAC technology directly to very, very large national, scalable CNI customers. But AEM does have a HVAC capabilities and HVAC services business. John, you want to comment on that?

John O'Rourke - AEM - CEO

Yes, one of our business in Allentown, Pennsylvania is HVAC service company, which has about 300 customers that it services on an annual basis through annual contracts, and we see some potential opportunity here to market this product into the customers into the Allentown, PA area.

Kent Holden - Holden Asset Management - Analyst

Okay. And my last question would be going into a longer-term financing. Are we anticipating something else besides the Letter of Credit?

Jeff Mistarz - Lime Energy - CFO

Actually, the line of credit, yes, we put the line of credit, increased the line of credit as a quick, easy financing vehicle for the acquisition, just in time to analyze our alternatives as we would determine what's the best alternative to financing acquisition in the long term. So, the line currently matures in March of '09, so that gives us nine months to figure out what we're going to do.

Kent Holden - Holden Asset Management - Analyst

Okay, great. Thank you very much.

Jeff Mistarz - Lime Energy - CFO

Thanks.

Operator

(OPERATOR INSTRUCTIONS).

Sir, we have no further questions at this time.

David Asplund - Lime Energy - CEO

Okay. Well, thank you, everybody. I want to, again, thank you for your support and look forward to talking to you on the second quarter call when that's scheduled. Thank you very much.

John O'Rourke - AEM - CEO

Thank you.

Operator

Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect, and have a wonderful day.

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