

ELECTRIC CITY CORP
Form 10-Q
November 10, 2005

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

Form 10-Q

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

For the quarterly period ended September 30, 2005

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

**For the transition period from _____ to _____
Commission file number 001-16265**

ELECTRIC CITY CORP.

(Exact name of small business issuer as specified in its charter)

Delaware

36-4197337

(State or other jurisdiction of incorporation or
organization)

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

1280 Landmeier Road, Elk Grove Village, Illinois 60007-2410

(Address of principal executive offices)

(847) 437-1666

(Issuer's telephone number)

(Former name, former address and former fiscal year, if changed since last report)

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 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes ☐ No ○

Indicate by check mark whether the registrant is an accelerated filer (as defined by Rule 12b-2 of the Exchange Act)

Yes ○ No ☐

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

Yes ○ No ☐

50,813,503 shares of the registrant's common stock, \$.0001 par value per share, were outstanding as of September 30, 2005.

ELECTRIC CITY CORP.

FORM 10-Q

For The Quarter Ended September 30, 2005

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PART I FINANCIAL INFORMATION

ITEM 1. Financial Statements

ELECTRIC CITY CORP.
CONDENSED CONSOLIDATED BALANCE SHEET

| | September 30 | December |
|---|----------------------|---------------------|
| | 2005 | 31, |
| | (unaudited) | 2004 (1) |
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 1,574,368 | \$ 1,789,808 |
| Accounts receivable, net | 1,010,948 | 1,067,104 |
| Inventories | 1,573,106 | 1,029,645 |
| Advances to suppliers | 449,049 | |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 42,876 | |
| Prepaid expenses and other | 202,423 | 90,727 |
| Total Current Assets | 4,852,770 | 3,977,284 |
| Net Property and Equipment | 2,487,474 | 1,985,561 |
| Deferred Financing Costs | 29,888 | 99,902 |
| Intangibles, net | 2,137,747 | |
| Cost in Excess of Assets Acquired | 4,602,557 | 416,573 |
| | \$ 14,110,436 | \$ 6,479,320 |

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**ELECTRIC CITY CORP.
CONDENSED CONSOLIDATED BALANCE SHEET**

| | September 30, 2005 (unaudited) | December 31, 2004 (1) |
|---|--------------------------------------|--------------------------|
| Liabilities and Stockholders Equity | | |
| Current Liabilities | | |
| Line of Credit | \$ 2,000,000 | \$ |
| Current maturities of long-term debt | 984,222 | 424,451 |
| Accounts payable | 1,022,413 | 1,284,421 |
| Accrued expenses | 1,078,219 | 567,689 |
| Notes payable | 201,265 | |
| Deferred revenue | 714,105 | 437,419 |
| Customer deposits | 1,456,648 | 1,000,000 |
| Total Current Liabilities | 7,456,872 | 3,713,980 |
| Deferred Revenue | 820,693 | 179,167 |
| Long-Term Debt , less current maturities, net of unamortized discount of \$14,973 and \$50,048 at September 30, 2005 and December 31, 2004, respectively | 2,604 | 805,902 |
| Total Liabilities | 8,280,169 | 4,699,049 |
| Stockholders Equity | | |
| Preferred stock, \$.01 par value; 5,000,000 shares authorized Series E 232,773 and 224,752 issued and outstanding as of September 30, 2005 and December 31, 2004, respectively (liquidation value of \$46,555,000 and \$44,950,000 at September 30, 2005 and December 31, 2004, respectively) | 2,328 | 2,248 |
| Common stock, \$.0001 par value; 200,000,000 shares authorized, 50,813,503 and 41,612,610 issued as of September 30, 2005 and December 31, 2004, respectively | 5,083 | 4,163 |
| Additional paid-in capital | 63,862,725 | 55,299,743 |
| Accumulated deficit | (58,039,869) | (53,525,883) |
| Total Stockholders Equity | 5,830,267 | 1,780,271 |
| | \$ 14,110,436 | \$ 6,479,320 |

(1)

*Derived from
audited
financial
statements in
the Company's
annual report
on Form 10-K
for the year
ended
December 31,
2004*

See accompanying notes to condensed consolidated financial statements

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ELECTRIC CITY CORP.
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(Unaudited)

| <i>Three months ended, September 30</i> | 2005 | 2004 |
|--|----------------|----------------|
| Revenue | \$ 1,312,584 | \$ 571,780 |
| Expenses | | |
| Cost of sales | 1,348,361 | 625,092 |
| Selling, general and administrative | 1,900,785 | 1,166,831 |
| | 3,249,146 | 1,791,923 |
| Operating loss | (1,936,562) | (1,220,143) |
| Other Income (Expense) | | |
| Interest income | 16,880 | 5,924 |
| Interest expense | (94,413) | (83,220) |
| Total other income (expense) | (77,533) | (77,296) |
| Net Loss | (2,014,095) | (1,297,439) |
| Plus Preferred Stock Dividends | (344,000) | (445,634) |
| Net Loss Available to Common Shareholder | \$ (2,358,095) | \$ (1,743,073) |
| Basic and Diluted Net Loss Per Common Share | \$ (0.05) | \$ (0.04) |
| Weighted Average Common Shares Outstanding | 50,813,503 | 41,467,028 |

See accompanying notes to condensed consolidated financial statements

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ELECTRIC CITY CORP.
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(Unaudited)

| <i>Nine months ended, September 30</i> | 2005 | 2004 |
|--|-----------------------|-----------------------|
| Revenue | \$ 3,845,338 | \$ 1,943,559 |
| Expenses | | |
| Cost of sales | 3,307,227 | 2,008,184 |
| Selling, general and administrative | 4,667,615 | 3,168,940 |
| | 7,974,842 | 5,177,124 |
| Operating loss | (4,129,504) | (3,233,565) |
| Other Income (Expense) | | |
| Interest income | 42,167 | 17,660 |
| Interest expense | (426,649) | (584,411) |
| Total other income (expense) | (384,482) | (566,751) |
| Net Loss | (4,513,986) | (3,800,316) |
| Plus Preferred Stock Dividends | (1,017,800) | (4,232,539) |
| Net Loss Available to Common Shareholder | \$ (5,531,786) | \$ (8,032,855) |
| Basic and Diluted Net Loss Per Common Share | \$ (0.12) | \$ (0.20) |
| Weighted Average Common Shares Outstanding | 46,869,133 | 39,326,768 |

See accompanying notes to condensed consolidated financial statements

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ELECTRIC CITY CORP.
STATEMENT OF CONDENSED CONSOLIDATED STOCKHOLDERS EQUITY
(Unaudited)

| | Common Shares | Common Stock | Series E Preferred Shares | Series E Preferred Stock | Additional Paid-in Capital | Accumulated Deficit | Total Stockholders Equity |
|---|-------------------|-----------------|---------------------------------|-----------------------------------|----------------------------------|------------------------|---------------------------------|
| Balance, December 31, 2004 | 41,612,610 | \$ 4,163 | 224,752 | \$ 2,248 | \$ 55,299,743 | \$ (53,525,883) | \$ 1,780,271 |
| Conversion of Series E Preferred Stock | 215,700 | 22 | (2,157) | (22) | | | |
| Issuance of common stock (less issuance costs of \$216,787) | 6,250,000 | 625 | | | 5,407,588 | | 5,408,213 |
| Shares issued for acquisition of Maximum Performance Group, Inc. | 2,509,708 | 251 | | | 2,710,234 | | 2,710,485 |
| Cumulative dividends on preferred stock Satisfaction of accrued dividends through the issuance of preferred stock | | | | | (1,017,800) | | (1,017,800) |
| Common stock issued for services received | 225,485 | 22 | 10,178 | 102 | 1,017,698 | | 1,017,800 |
| Warrants issued for services received | | | | | 125,462 | | 125,484 |
| | | | | | 319,800 | | 319,800 |
| Net loss for the nine months ended September 30, 2005 | | | | | | (4,513,986) | (4,513,986) |
| Balance, September 30, 2005 | 50,813,503 | \$ 5,083 | 232,773 | \$ 2,328 | \$ 63,862,725 | \$ (58,039,869) | \$ 5,830,267 |

See accompanying notes to condensed consolidated financial statements. .

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ELECTRIC CITY CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

| <i>Nine months ended September 30</i> | 2005 | 2004 |
|---|----------------|----------------|
| Cash Flow from Operating Activities | | |
| Net loss | \$ (4,513,986) | \$ (3,800,316) |
| Adjustments to reconcile net loss to net cash used in operating activities, net of acquisition | | |
| Depreciation and amortization | 373,147 | 56,801 |
| Warrants issued in exchange for services received | 319,800 | 39,500 |
| Amortization of deferred financing costs | 70,014 | 352,926 |
| Amortization of original issue discount | 35,075 | 176,806 |
| Accrued interest converted to common stock | | 4,736 |
| Loss on disposal of fixed assets | 11,743 | |
| Changes in assets and liabilities, net of acquisitions | | |
| Accounts receivable | 348,258 | 400,987 |
| Inventories | (217,339) | (343,222) |
| Advances to suppliers | 23,640 | |
| Other current assets | (90,961) | (125,790) |
| Accounts payable | (1,190,517) | (558,177) |
| Accrued expenses | (148,411) | 253,869 |
| Deferred revenue | (93,404) | 4,296 |
| Other current liabilities | (44,992) | 473,774 |
| Net cash used in operating activities | (5,117,933) | (3,063,810) |
| Cash Flows Used In Investing Activities | | |
| Acquisition (including acquisition costs), net of cash acquired | (1,644,419) | |
| Purchase of property and equipment | (470,342) | (13,241) |
| Net cash used in investing activities | (2,114,761) | (13,241) |
| Cash Flows Provided by Financing Activities | | |
| Borrowings on line of credit | 2,000,000 | |
| Payment on long-term debt | (390,959) | (29,340) |
| Preferred stock redemption | | (7,000,006) |
| Proceeds from issuance of common stock | 5,625,000 | 11,000,000 |
| Issuance costs related to stock issuances | (216,787) | (897,135) |
| Proceeds from exercise of warrants | | 193,648 |

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| | | |
|---|---------------------|---------------------|
| Net cash provided by financing activities | 7,017,254 | 3,267,167 |
| Net (Decrease) Increase in Cash and Cash Equivalents | (215,440) | 190,116 |
| Cash and Cash Equivalents , at beginning of period | 1,789,808 | 2,467,023 |
| Cash and Cash Equivalents , at end of period | \$ 1,574,368 | \$ 2,657,139 |
| Supplemental Disclosure of Cash Flow Information | | |
| Cash paid during the periods for interest | \$ 140,648 | \$ 63,784 |
| Value of warrants issued in exchange for services received | 319,800 | 39,500 |

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Nine months ended September 30 2005 2004

Supplemental Disclosures of Noncash Investing and Financing Activities

| | | |
|---|----|------------|
| Conversion of convertible debt to common stock | \$ | \$ 270,863 |
| Accrued interest satisfied through the issuance of common stock | | 4,736 |

Certain holders of Series E preferred stock converted 2,157 shares of Series E preferred stock into 215,700 shares of the Company's common stock during the first quarter of 2005

On May 3, 2005, the Company purchased Maximum Performance Group, Inc. for \$1,644,419 in cash (net of cash acquired of \$136,492 and including transaction costs of \$137,386), 2,509,708 shares of Electric City common stock and approximately 2,509,708 additional shares which have been placed in escrow. If Maximum Performance Group's revenues during the two years following the merger exceed an aggregate of \$5,500,000 the escrow shares will be released to the former stockholders of Maximum Performance Group at the rate of 202 shares for every \$1,000 of revenue in excess of such amount. The common stock paid at closing was valued at \$2,710,485. The related assets and liabilities at the date of acquisition were as follows:

| | | |
|---|-----------|--------------------|
| Accounts receivable | \$ | 292,102 |
| Inventory | | 326,122 |
| Advances to suppliers | | 472,689 |
| Other current assets | | 63,611 |
| Property and equipment | | 121,608 |
| Intangible assets | | 2,432,600 |
| Cost in excess of assets acquired | | 4,185,984 |
| Total assets acquired | | 7,894,716 |
| Accounts payable | | (928,509) |
| Accrued expenses | | (658,940) |
| Deferred revenue | | (1,011,616) |
| Other current liabilities | | (525,675) |
| Notes payable | | (289,587) |
| Total liabilities assumed | | (3,414,327) |
| Net assets acquired | | 4,480,389 |
| Less valuation of shares issued for acquisition | | (2,710,485) |
| Acquisition costs paid through the issuance of common stock | | (125,485) |
| Total cash paid, including acquisition costs | \$ | 1,644,419 |

See accompanying notes to condensed consolidated financial statements

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**Electric City Corp.
Notes to Financial Statements**

Note 1 Basis of Presentation

The financial information included herein is unaudited; however, such information reflects all adjustments (consisting solely of normal recurring adjustments), which, in the opinion of management, are necessary for a fair statement of results for the interim periods.

The accompanying consolidated financial statements have been prepared on the going concern basis which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has experienced operating losses and negative cash flow from operations since inception and currently has an accumulated deficit. These factors raise substantial doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is ultimately dependent on its ability to increase sales to a level that will allow it to operate profitably and sustain positive operating cash flows. In late April of this year the Company successfully raised \$5,625,000 in gross proceeds through a private placement of equity, of which \$1,644,419 was used to fund the acquisition of Maximum Performance Group, Inc. (MPG) (see note 5). There is no assurance that the remaining proceeds of \$3,981,475 will be sufficient to fund operations until sales and profitability improve to the point that the Company is able to operate from internally generated cash flows. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the possible inability of the Company to continue as a going concern.

The results of operations for the three and nine months ended September 30, 2005 and 2004 are not necessarily indicative of the results to be expected for the full year.

For further information, refer to the audited financial statements and the related footnotes included in the Electric City Corp. Annual Report on Form 10-K, for the year ended December 31, 2004.

Note 2 Stock-based Compensation

At September 30, 2005, the Company had a stock-based compensation plan, which is more fully described in Note 17 in the Company's 2004 Annual Report on Form 10-K as filed on March 31, 2005. The Company applies the recognition and intrinsic value measurement principles of Accounting Principles Board (APB) Opinion No. 25,

Accounting for Stock Issued to Employees, and related Interpretations in accounting for those plans. No stock-based compensation expense was reflected in the net loss for the three month or nine month periods ended September 30, 2005 or September 30, 2004, as all options granted under the plan had an exercise price equal to or greater than the market value of the underlying common stock on the date of the grant. The following table illustrates the effect on the net loss and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123,

Accounting for Stock-Based Compensation, to stock-based compensation:

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| | Three Months Ended September 30 | | Nine months Ended September 30 | |
|--|--|----------------|---|----------------|
| | 2005 | 2004 | 2005 | 2004 |
| Net Loss, as reported | \$ (2,014,000) | \$ (1,297,000) | \$ (4,514,000) | \$ (3,800,000) |
| Deduct: Stock-based employee compensation expense included in reported net loss | | | | |
| Add: Total stock-based employee compensation (expense) income determined under fair value based method for awards ¹ | (160,000) | (249,000) | (664,000) | (777,000) |
| Net Loss, pro-forma | (2,174,000) | (1,546,000) | (5,178,000) | (4,577,000) |
| Preferred stock dividends | (344,000) | (446,000) | (1,018,000) | (4,233,000) |
| Net Loss Available to Common Shareholder | \$ (2,518,000) | \$ (1,992,000) | \$ (6,196,000) | \$ (8,810,000) |
| Net loss per share | | | | |
| Basic and diluted as reported | \$ (0.05) | (0.04) | \$ (0.12) | (0.20) |
| Basic and diluted pro-forma | \$ (0.05) | (0.05) | \$ (0.13) | (0.22) |

¹ All awards refer to awards granted, modified, or settled in fiscal periods beginning after December 15, 1994 that is, awards for which the fair value was required to be measured and disclosed under Statement 123.

When the Company adopts FAS 123 (R), currently scheduled for the first quarter of 2006, it will include the expense associated with options issued to employees in its Condensed Consolidated Statements of Operations. The Company

has not yet completed its assessment of which valuation model or transition option it will use once it adopts FAS 123 (R).

Note 3 Revenue Recognition

The Company recognizes revenue when all four of the following criteria are met: (i) persuasive evidence has been received that an arrangement exists; (ii) delivery of the products and/or services has occurred; (iii) the selling price is fixed or determinable; and (iv) collectibility is reasonably assured. In addition, the Company follows the provisions of the Securities and Exchange Commission's Staff Accounting Bulletin No. 104, Revenue Recognition, which sets forth guidelines in the timing of revenue recognition based upon factors such as passage of title, installation, payments and customer acceptance. Any amounts received prior to satisfying the Company's revenue recognition criteria is recorded as deferred revenue in the accompanying balance sheet.

Revenues on long-term contracts are recorded under the percentage of completion, cost-to-cost method of accounting. Any anticipated losses on contracts are charged to operations as soon as they are determinable.

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The timing of revenue recognition may differ from contract payment schedules resulting in revenues that have been earned but not yet billed. These amounts are recorded on the balance sheet as Costs and estimated earnings in excess of billings on uncompleted contracts. Billings on contracts that do not meet the Company's revenue recognition policy requirements for which it has been paid or has a valid account receivable are recorded as deferred revenue.

The Company's MPG subsidiary often bundles contracts to provide monitoring services and web access with the sale of its eMAC hardware. As a result, these sales are considered to be contracts with multiple deliverables which at the time the hardware is delivered and installed includes undelivered services essential to the functionality of the product. Accordingly, the Company defers the revenue for the product and services and the cost of the equipment and installation and recognizes them over the term of the monitoring contract. The monitoring contracts vary in length from 1 month to 5 years.

The Company also has entered into agreements in which it has contracted with utilities to establish a Virtual Negawatt Power Plan (VNPP). Under these contracts, the Company installs Energy Saver units at participating host locations. The participating host locations receive the benefit of reduced electric usage through the operation of the units. The Company is able to further reduce electric demand requirements during periods of peak demand, providing nearly instantaneous control, measurement and verification of load reduction. The utility companies will pay the Company for the availability of this demand reduction and the Company will recognize revenue under these contracts over the period for which the demand reduction is provided. No revenue has been recognized under such contracts as of September 30, 2005. The cost of the energy saver units currently at host locations under such VNPP programs is included in fixed assets and will be depreciated over the term these units will be used under the VNPP program contract.

Note 4 Recent Accounting Pronouncements

None to report in the current quarter.

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Note 5 Acquisition of Maximum Performance Group, Inc.

On May 3, 2005, pursuant to an Agreement and Plan of Merger (the Merger Agreement) dated as of April 28, 2005, by and among Electric City Corp., MPG Acquisition Corporation, a wholly-owned subsidiary of Electric City (Merger Subsidiary), and Maximum Performance Group, Inc. (MPG), Electric City acquired MPG pursuant to the merger of MPG with and into Merger Subsidiary, with Merger Subsidiary continuing as the surviving corporation under the name Maximum Performance Group, Inc.

The merger consideration, which is subject to post closing adjustment, consisted of \$1,644,419 in cash (net of transaction costs of \$137,386 and cash acquired of 136,492), 2,509,708 shares of Electric City common stock and approximately 2,509,708 additional shares which have been placed in escrow. Total consideration was \$4,616,881, which consisted of \$1,643,525 in cash, stock valued at \$2,710,485 (based on the average closing price the Company s stock for the five days before and after the announcement of the transaction), \$137,386 in transaction costs and commissions paid to Delano Securities in the form of 125,485 shares of common stock valued at \$1.00 per share (the closing price of the Company s stock on the effective date of the transaction). The cash portion of the consideration was funded with proceeds from a private placement of the Company s common stock. (See note 12d for additional information on the private placement). If MPG s revenues during the two years following the merger exceed an aggregate of \$5,500,000 the escrow shares will be released to the former stockholders of MPG at the rate of 202 shares for every \$1,000 of revenue in excess of such amount. These shares will be valued at the market price at the time they are released from escrow and will result in an increase in the goodwill associated with the transaction. The escrow shares are also available to satisfy any indemnification claims which the Company may have under the Merger Agreement. As a part of the transaction, the former stockholders of MPG entered into a stock trading agreement with the Company which