

LIME ENERGY CO.
Form DEF 14A
October 28, 2013
Table of Contents

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

SCHEDULE 14A
(RULE 14a-101)

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant X

Filed by a Party other than the Registrant O

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material under §240.14a-12

LIME ENERGY CO.
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
 - (1) Title of each class of securities to which transaction applies:
 - (2) Aggregate number of securities to which transaction applies:
 - (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
 - (4) Proposed maximum aggregate value of transaction:
 - (5) Total fee paid:
- Fee paid previously with preliminary materials.
- Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
 - (1) Amount Previously Paid:
 - (2) Form, Schedule or Registration Statement No.:
 - (3) Filing Party:

(4)

Date Filed:

Table of Contents

16810 Kenton Drive, Suite 240

Huntersville, NC 28078

November 1, 2013

Dear Fellow Stockholder:

On behalf of the Board of Directors, I cordially invite you to attend the 2013 Annual Meeting of Stockholders to be held at 9:00 a.m., local time, on Thursday, November 21, 2013, at JW Marriott hotel at 151 West Adams, Chicago, Illinois. The formal notice of the Annual Meeting appears on the following page.

The attached Notice of Annual Meeting and Proxy Statement contain detailed information about the matters that we expect to act upon at the Annual Meeting.

Please sign, date and specify your choices on the enclosed proxy card and promptly return it in the enclosed business reply envelope. This will help insure that your shares are represented at the Annual Meeting, whether or not you plan to attend the Annual Meeting. If you attend the meeting, you may revoke your proxy and personally cast your vote.

We look forward to seeing you at the Annual Meeting and urge you to return your proxy card as soon as possible.

Sincerely,

/s/ John O Rourke
Lime Energy Co.
John O Rourke

Chief Executive Officer

Table of Contents

LIME ENERGY CO.

16810 Kenton Drive, Suite 240

Huntersville, NC 28078

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To be held November 21, 2013

To the Stockholders of

LIME ENERGY CO.:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of Lime Energy Co. will be held at the JW Marriott hotel at 151 West Adams, Chicago, Illinois at 9:00 a.m. local time, on Thursday, November 21, 2013, for the following purposes:

1. To elect five directors to our Board of Directors;

2. To approve the issuance of common stock upon the conversion of our preferred stock and the exercise of our outstanding warrants issued in connection with the sale of our Series A Preferred Stock;

3. To approve an amendment to our 2010 Non-Employee Directors Stock Plan to increase the maximum number of shares of common stock currently available for awards under the Plan from 35,715 shares to 71,430 shares;

4. To approve the 2013 Employee Stock Purchase Plan;

5. To approve an advisory vote on executive compensation;

Edgar Filing: LIME ENERGY CO. - Form DEF 14A

6. To hold an advisory vote on the frequency of future executive compensation advisory votes ; and

7. To ratify the appointment of BDO USA, LLP as our independent registered public accounting firm for the fiscal year 2013.

Stockholders will also transact such other business as may properly come before the Annual Meeting or any adjournment thereof. As of the date of this notice, our Board of Directors knows of no other proposals or matters to be presented.

The foregoing items of business are more fully described in the proxy statement accompanying this notice. This proxy statement is accompanied by a copy of the annual report to stockholders. The Board of Directors has fixed the close of business on October 22, 2013 as the record date for determining stockholders entitled to notice of, and to vote at, the Annual Meeting or any adjournment thereof.

The Board of Directors encourages you to complete, sign and date the enclosed proxy card and promptly return it in the enclosed postage prepaid envelope, regardless of whether you plan to attend the Annual Meeting.

By Order of the Board of Directors,

/s/ Richard P. Kiphart
Richard P. Kiphart
Chairman of the Board of Directors

Huntersville, North Carolina
November 1, 2013

Table of Contents

PROXY STATEMENT

Table of Contents

<u>GENERAL INFORMATION</u>	1
<u>SOLICITATION</u>	1
<u>RECORD DATE AND OUTSTANDING SHARES</u>	2
<u>REQUIRED VOTE</u>	2
<u>QUORUM; ABSTENTIONS AND BROKER NON-VOTES</u>	2
<u>VOTING OF PROXIES; REVOCABILITY OF PROXIES</u>	3
<u>DISSENTER S RIGHT OF APPRAISAL</u>	3
<u>INTEREST OF CERTAIN OFFICERS AND DIRECTORS IN MATTERS TO BE ACTED</u>	3
<u>ANNUAL REPORT TO STOCKHOLDERS</u>	3
<u>MULTIPLE STOCKHOLDERS SHARING THE SAME ADDRESS</u>	3
<u>PROPOSAL 1 ELECTION OF DIRECTORS</u>	4
<u>NOMINEES FOR DIRECTOR</u>	4
<u>LEADERSHIP STRUCTURE AND ROLE IN RISK OVERSIGHT</u>	6
<u>DIVERSITY</u>	6
<u>FAMILY RELATIONSHIPS</u>	6
<u>DIRECTOR ATTENDANCE</u>	6
<u>INDEPENDENT DIRECTORS</u>	7
<u>COMPENSATION OF DIRECTORS</u>	7
<u>DIRECTOR COMPENSATION PROGRAM</u>	7
<u>DIRECTOR COMPENSATION TABLE</u>	8
<u>COMMITTEES OF THE BOARD OF DIRECTORS</u>	9
<u>SELECTION OF BOARD NOMINEES</u>	10
<u>CODES OF CONDUCT AND BUSINESS ETHICS</u>	11
<u>EXECUTIVE OFFICERS</u>	12
<u>SECURITY OWNERSHIP OF PRINCIPAL STOCKHOLDERS AND MANAGEMENT</u>	12
<u>BENEFICIAL OWNERS OF GREATER THAN 5% OF OUR COMMON STOCK</u>	13
<u>DIRECTORS AND EXECUTIVE OFFICERS</u>	13
<u>CHANGES IN CONTROL</u>	13
<u>SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE</u>	14
<u>TRANSACTIONS WITH RELATED PERSONS, PROMOTERS AND CONTROL PERSONS</u>	14
<u>EXECUTIVE COMPENSATION</u>	16
<u>COMPENSATION DISCUSSION AND ANALYSIS</u>	16
<u>2012 SUMMARY COMPENSATION TABLE</u>	20
<u>EMPLOYMENT CONTRACTS, TERMINATION OF EMPLOYMENT AND CHANGE-IN-CONTROL ARRANGEMENTS</u>	21
<u>POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL</u>	23
<u>GRANTS OF PLAN-BASED AWARDS FOR 2012</u>	24

<u>OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END 2012</u>	24
<u>STOCK OPTIONS AND INCENTIVE COMPENSATION</u>	25
<u>OPTION EXERCISES AND STOCK VESTED DURING 2012</u>	26
<u>OPTION RE-PRICING</u>	26

Table of Contents

<u>PROPOSAL 2 APPROVAL OF THE ISSUANCE OF CONVERSION AND WARRANT SHARES</u>	27
<u>BACKGROUND</u>	27
<u>NEED FOR STOCKHOLDER APPROVAL</u>	28
<u>CONSEQUENCES OF APPROVAL OR DISAPPROVAL OF THE ISSUANCE OF CONVERSION AND WARRANT SHARES</u>	29
<u>DILUTIVE EFFECT</u>	29
<u>ADDITIONAL INFORMATION</u>	29
<u>PROPOSAL 3 PROPOSAL TO AMEND OUR 2010 NON-EMPLOYEE DIRECTORS STOCK PLAN</u>	30
<u>INTRODUCTION</u>	30
<u>THE PLAN AMENDMENT</u>	31
<u>DESCRIPTION OF THE PLAN</u>	31
<u>AWARDS UNDER THE 2010 DIRECTOR STOCK PLAN</u>	34
<u>NASDAQ STOCKHOLDER APPROVAL REQUIREMENTS</u>	34
<u>PROPOSAL 4 APPROVAL OF 2013 EMPLOYEE STOCK PURCHASE PLAN</u>	35
<u>MATERIAL FEATURES OF THE ESPP</u>	35
<u>FEDERAL INCOME TAX CONSIDERATIONS</u>	38
<u>PROPOSAL 5 ADVISORY VOTE ON EXECUTIVE COMPENSATION</u>	39
<u>PROPOSAL 6 ADVISORY VOTE ON THE FREQUENCY OF FUTURE EXECUTIVE COMPENSATION ADVISORY VOTES</u>	40
<u>PROPOSAL 7 RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u>	41
<u>AUDIT COMMITTEE DISCLOSURE</u>	42
<u>GENERAL</u>	42
<u>INDEPENDENT AUDITORS FEES</u>	42
<u>PROCEDURES FOR AUDIT COMMITTEE PRE-APPROVAL OF AUDIT AND PERMISSIBLE NON-AUDIT SERVICES OF INDEPENDENT AUDITOR</u>	43
<u>REPORT OF THE AUDIT COMMITTEE</u>	43
<u>MISCELLANEOUS AND OTHER MATTERS</u>	45
<u>STOCKHOLDER COMMUNICATIONS WITH THE BOARD OF DIRECTORS</u>	45
<u>PROPOSALS OF STOCKHOLDERS FOR NEXT YEAR S MEETING</u>	45
<u>STOCKHOLDER LIST</u>	45
<u>OTHER BUSINESS</u>	45
<u>INCORPORATION BY REFERENCE</u>	46
<u>FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION</u>	46
<u>APPENDIX A - FIRST AMENDMENT TO THE LIME ENERGY CO. 2010 NON-EMPLOYEE DIRECTORS STOCK PLAN</u>	A-1
<u>APPENDIX B - LIME ENERGY CO. 2010 NON-EMPLOYEE DIRECTORS STOCK PLAN</u>	B-1
<u>APPENDIX C - LIME ENERGY CO. 2010 NON-EMPLOYEE DIRECTORS STOCK PLAN</u>	C-1

Table of Contents

LIME ENERGY CO.

16810 Kenton Drive, Suite 240

Huntersville, NC 28078

PROXY STATEMENT

FOR ANNUAL MEETING OF STOCKHOLDERS

To be held Thursday, November 21, 2013

GENERAL INFORMATION

This proxy statement and the enclosed proxy card are being furnished to our stockholders in connection with the solicitation of proxies by the Board of Directors of Lime Energy Co., a Delaware corporation, for use at our Annual Meeting of Stockholders to be held at JW Marriott hotel at 151 West Adams, Chicago, Illinois at 9:00 a.m. local time, on Thursday, November 21, 2013, and any adjournments thereof. This proxy statement and the accompanying form of proxy are first being mailed to stockholders on or about November 1, 2013.

A copy of our 2012 Annual Report on Form 10-K for the year ended December 31, 2012 has been mailed to you. Our proxy statement for the Meeting and the 2012 Annual Report on Form 10-K can be viewed at <https://materials.proxyvote.com/>.

We use the terms Lime Energy, the Company, we, our and us in this proxy statement to refer to Lime Energy Co. and its consolidated subsidiaries, unless the context otherwise requires.

On October 10, 2013, we effected a 1 for 7 reverse stock split of our common stock. All references to numbers of shares, and to prices per share, of our common stock in this proxy statement mean number of shares and price per share as adjusted for the effects of that reverse stock split, respectively.

Solicitation

Edgar Filing: LIME ENERGY CO. - Form DEF 14A

The cost of this proxy solicitation will be borne by Lime Energy. We may request banks, brokers, fiduciaries, custodians, nominees and certain other record holders to send proxies, proxy statements and other materials to their principals at our expense. Those banks, brokers, fiduciaries, custodians, nominees and other record holders will be reimbursed by us for their reasonable out-of-pocket expenses of solicitation. We do not anticipate that costs and expenses incurred in connection with this proxy solicitation will exceed an amount normally expended for a proxy solicitation for an election of directors in the absence of a contest. In addition to soliciting proxies by mail, we and our directors, officers and regular employees may also solicit proxies personally, by telephone or by other appropriate means. No additional compensation will be paid to directors, officers or other regular employees for such services.

Table of Contents

Record Date and Outstanding Shares

Our Board of Directors fixed the close of business on October 22, 2013 as the record date for the determination of stockholders entitled to notice of, and to vote at, the Annual Meeting or any adjournments thereof. As of the close of business on the record date, we had 3,593,242 shares of common stock with voting rights as to certain matters outstanding. Each outstanding share of common stock on such date is entitled to one vote on each matter to be voted on at the Annual Meeting.

Required Vote

The affirmative vote of a majority of the shares of common stock voted in person or by proxy at the Annual Meeting is required to elect the nominees to the Board of Directors, to approve each of Proposals 2, 3, 4 and 5, to approve one of the three frequency options under the advisory vote on the frequency of future executive compensation advisory votes (Proposal 6), and to ratify the appointment of our independent auditors (Proposal 7). With respect to Proposal 6, if none of the three frequency options receives the vote of the holders of a majority of the votes cast, we will consider the frequency option (one year, two years or three years) receiving the highest number of votes cast by stockholders to be the frequency that has been recommended by stockholders. However, as described in more detail in Proposal 6, because this proposal is non-binding, the Board of Directors may decide that it is in the best interest of our stockholders and the Company to hold future executive compensation advisory votes more or less frequently. Proposal 5 is also a non-binding proposal. Stockholders do not have any rights to cumulate their votes in the election of directors.

Quorum; Abstentions and Broker Non-Votes

The required quorum for transaction of business at the Annual Meeting will be a majority of the total votes of the shares of common stock issued and outstanding as of the record date. Votes cast by proxy or in person at the Annual Meeting will be tabulated by the election inspector appointed for the meeting and will be taken into account in determining whether or not a quorum is present. Abstentions and broker non-votes, which occur when a broker has not received customer instructions and indicates that it does not have the discretionary authority to vote on a particular matter on the proxy card, will be included in determining the presence of a quorum at the Annual Meeting. Abstentions will have the effect of a vote against the election of the nominees to the Board of Directors, to approve each of Proposals 2, 3, 4 and 5 and to ratify the appointment of our independent auditors. Abstentions will not be counted for Proposal 6, and therefore will have no effect on the outcome of Proposal 6. Broker non-votes will not be counted, and therefore will have no effect on the outcome on the election of directors, any of the proposals or the ratification of our independent auditors.

If you own shares through a bank, broker, or other holder of record, you must instruct your bank, broker, or other holder of record how to vote in order for them to vote your shares so that your vote can be counted. Unless you provide voting instructions to any broker holding shares on your behalf, your broker may not use discretionary authority to vote your shares on any of the matters to be considered at the annual meeting other than the ratification of our independent registered public accounting firm. Please vote your proxy so your vote can be counted.

Table of Contents

Voting of Proxies; Revocability of Proxies

Our Board of Directors selected Jeffrey R. Mistarz and Anne Berg, the persons named as proxies on the proxy card accompanying this proxy statement, to serve as proxies. Mr. Mistarz is our executive vice president, chief financial officer, treasurer and corporate secretary, and Ms. Berg is our general counsel and assistant secretary. The shares of common stock represented by each executed and returned proxy will be voted in accordance with the directions indicated thereon, or if no direction is indicated, the proxy will be voted in accordance with the recommendations of the Board of Directors contained in this proxy statement.

All stockholders may vote in person at the Annual Meeting. You may also be represented by another person at the Annual Meeting by executing a proper proxy designating that person. If you are a beneficial owner of shares, you must obtain a legal proxy from your broker, bank or other holder of record and present it to the inspectors of election with your ballot to be able to vote at the Annual Meeting.

You can revoke a proxy you have given at any time before the shares it represents are voted by giving our secretary either (1) an instrument revoking the proxy or (2) a duly executed proxy bearing a later date. Additionally, you may change or revoke a previously executed proxy by voting in person at the Annual Meeting. However, your attendance at the Annual Meeting will not, by itself, revoke your proxy.

Dissenter s Right of Appraisal

There is no proposal or matter that will be acted upon in the meeting that would grant dissenting stockholders the right of appraisal.

Interest of Certain Officers and Directors in Matters to be Acted Upon

Richard Kiphart, the Chairman of our Board of Directors, holds 479,774 shares of our Series A Preferred Stock and warrants to purchase 211,641 shares of our common stock issued in connection with the sale of our Series A Preferred Stock. Those shares of our Series A Preferred Stock will not be convertible into our common stock and those warrants may not be exercised unless Proposal 2 is approved by our stockholders.

Annual Report to Stockholders

We are simultaneously furnishing to you with this proxy statement our Annual Report to Stockholders for the fiscal year ended December 31, 2012, which contains financial and other information pertaining to us.

Multiple Stockholders Sharing the Same Address

Owners of common stock who hold their shares in a brokerage account may receive a notice from their broker stating that only one proxy statement will be delivered to multiple security holders sharing an address. This practice, known as householding, is designed to reduce printing and postage costs. However, if any stockholder residing at such an address wishes to receive a separate proxy statement, he or she may contact our Corporate Secretary at Lime Energy Co., 16810 Kenton Drive, Suite 240, Huntersville, NC 28078 or by telephone at (704) 892-4442.

Table of Contents**PROPOSAL 1****ELECTION OF DIRECTORS**

At the Annual Meeting, five nominees to the Board of Directors will be elected to hold office for a term ending at our 2014 Annual Meeting of stockholders or until their respective successors are duly elected and qualified. All nominees listed below are currently members of our Board of Directors and have consented to being named in this proxy statement and to serve as directors, if elected. If, at the time of the Annual Meeting, any nominee becomes unavailable or declines to serve as a director for any reason, the persons named in the proxy will vote for the substitute nominee(s) as the Board of Directors recommends, or vote to allow the vacancy created by the nominee who is unable or declines to serve to remain open until filled by the Board of Directors, as the Board of Directors recommends. The Board of Directors has no reason to believe that any nominee will be unable or decline to serve if elected to office. The Board has set the size of the Board of Directors at seven members. There are currently two vacancies, which the Board is seeking to fill. To date it has not identified qualified candidates to fill these vacancies. Under our by-laws, the Board may appoint directors to fill these vacancies until the next annual meeting of stockholders or set the size of the Board at a number of directors ranging from three to twelve.

Nominees for Director

The following table presents the names of the director nominees as well as certain information about them. Proxies cannot be voted for a greater number of persons than the number of nominees named.

Name	Age	Position Held with the Company	Served as Director Since
Gregory T. Barnum	58	Director (1)(2)	2006
Christopher W. Capps	31	Director (1)	2009
Stephen Glick	66	Director (1) (2)(3)	2009
Richard P. Kiphart	72	Chairman of the Board (2)(3)	2006
John O Rourke	53	Director; Chief Executive Officer	2011

-
- (1) Member of our Audit Committee.
 - (2) Member of our Compensation Committee.
 - (3) Member of our Governance and Nominating Committee.

Below, we provide the following information for each director and Board of Directors nominee:

- principal occupations for at least the past five years

Edgar Filing: LIME ENERGY CO. - Form DEF 14A

- the names of any other public companies where the nominee or director currently serves as a director or has served during the past five years
- the particular experience, qualifications, attributes or skills that led the Board to conclude that the person should serve as a director for the company

Gregory T. Barnum is currently the vice president of finance, chief financial officer and corporate secretary of Datalink Corporation, a provider of data center infrastructure services. Prior to joining Datalink in March 2006, Mr. Barnum was the vice president of finance, chief financial officer and corporate secretary of Computer Network Technology Corporation since July 1997. From September 1992 to July 1997, Mr. Barnum served as senior vice president of finance and administration, chief financial officer and corporate secretary at Tricord Systems, Inc., a manufacturer of enterprise servers. From May 1988 to September 1992, Mr. Barnum served as the executive vice president, finance, chief financial officer, treasurer and corporate

Table of Contents

secretary for Cray Computer Corporation, a development stage company engaged in the design of supercomputers. Prior to that time, Mr. Barnum served in various accounting and financial management capacities for Cray Research, Inc. Mr. Barnum is a Certified Public Accountant and a member of the American Institute of Certified Public Accountants. Mr. Barnum also serves on the Board of Wireless Ronin Technologies, Inc. Mr. Barnum's 20+ years of accounting experience and experience as a chief financial officer of publicly traded companies qualify him to serve on our board of directors and act as a financial expert.

Christopher W. Capps served as President and Chief Executive Officer of Advanced Biotherapy, Inc. from August 2006 until we acquired Advanced Biotherapy, Inc., on March 3, 2010. Since September 2005, Mr. Capps has also served as President and CEO of KGC Partners, a private equity firm. Mr. Capps's experience working with small and mid-sized companies and knowledge of current corporate finance techniques and market activities qualifies him to serve on our board.

Stephen Glick has been one of our directors since July 2009. Mr. Glick was the President of Applied Energy Management, Inc., a company he founded in 1984, until we acquired the company in June 2008. Mr. Glick's 20+ years of experience running an energy efficiency business serving some of the nation's largest ESCOs makes him qualified to serve on our board.

Richard P. Kiphart is currently the head of the Private Client Advisors group and a principal of William Blair & Company for over 43 years. In addition, Mr. Kiphart is currently chairman of Ranair Inc. and the former chairman of Nature Vision and The Merit Music School, and is currently the president and chief executive officer of the Lyric Opera of Chicago, the chairman of the Erikson Institute and serves on the board of Children's Memorial Hospital and Columbia College. Mr. Kiphart's leadership skills and extensive investment banking experience, as well as his experience serving on numerous boards makes him qualified to serve on our board.

John O. Rourke has served as our chief executive officer since May 2011. From February 2010 to May 2011 he served as our chief operating officer. Mr. O. Rourke was previously president and chief executive officer of our subsidiary, Lime Energy Services Co. (fka Applied Energy Management, Inc.), which we acquired in June 2008. Prior to joining Applied Energy Management, Mr. O. Rourke was the president of Landmark Service Company, LLC from July 2003 until September 2004, when the company was acquired by Applied Energy Management. Prior to working at Landmark, he was vice president of engineering and operations at Duke Solutions, a Duke Energy subsidiary. Mr. O. Rourke currently serves on the Board of the National Association of Energy Services Companies (NAESCO). Mr. O. Rourke's industry experience and responsibility for executing the Company's strategic plan qualify him for his position on the Lime Energy board.

The Board of Directors recommends that the stockholders vote

FOR

the election of all of the director nominees.

Table of Contents

Leadership Structure and Role in Risk Oversight

The Company's board leadership structure separates the roles of board chair and principal executive officer roles. When the board chair is not an independent director, an independent director is designated as the lead director. At present, Richard Kiphart is the chairman of the board and John O'Rourke is the chief executive officer. The Company determines the leadership structure it deems appropriate based on factors such as the experience and availability of the applicable individuals, the current business environment of the Company or other relevant factors. After considering these factors, the Company believes that separating the positions of chairman of the board, lead director and chief executive officer is the appropriate board leadership structure at this time, allowing our chief executive officer to focus on the business strategy and operations of the Company, while our executive chairman provides leadership to the Board necessary for the Board to fulfill its responsibilities and the lead director provides independent perspective on the Board's activities. In the future, the Company may determine that combining some of these positions may be the best structure for operating the Company, based on the factors at that time or, if the board chair is an independent director, that there is no need to separately designate a lead director.

The Board of Directors is responsible for oversight of the Company's risk management practices while management is responsible for the day-to-day risk management processes. In the Board's opinion, this division of responsibilities is the most effective approach for addressing the risks facing the Company, and the Company's board leadership structure supports this approach. The Board receives periodic reports from management regarding the most significant risks facing the Company. In addition, the Audit Committee assists the Board in its oversight role by receiving periodic reports regarding the Company's risk and control environment.

Diversity

The Board does not have a formal policy with respect to Board nominee diversity. In recommending proposed nominees to the full Board, the Nominating Committee is charged with building and maintaining a board that has an ideal mix of talent and experience to achieve our business objectives in the current environment. In particular, the Nominating Committee is focused on relevant subject matter expertise, depth of knowledge in key areas that are important to us, and diversity of thought, background, perspective and experience so as to facilitate robust debate and broad thinking on strategies and tactics pursued by us.

Family Relationships

The only family relationship between any of our directors and officers is that Mr. Kiphart is the father-in-law of Mr. Capps.

Director Attendance

During the fiscal year ended December 31, 2012, the Board of Directors held 14 formal meetings. In addition, there were five meetings of the Audit Committee and twelve meetings of the special subcommittee of the Audit Committee. During 2012, all members of the Board of Directors attended at least 75% of the total of all board meetings and applicable committee meetings. We encourage our Board members to attend our Annual Meeting, but we do not have a formal policy requiring attendance. Our independent directors met in executive session, without

management directors present, two times during 2012, each time in conjunction with a formal meeting of the board.

Table of Contents**Independent Directors**

Of the five directors currently serving on the Board, all of whom are director nominees at the next Annual Meeting, the Board has determined that each of Messrs. Barnum, Capps, Glick and Kiphart are independent as defined in NASDAQ Rule 5605(a)(2). Mr. O'Rourke is not considered independent because he also serves as one of our executive officers.

COMPENSATION OF DIRECTORS**Director Compensation Program**

Effective April 1, 2000, we adopted a stock option plan for all non-employee directors that was separate and distinct from our employee incentive plans. The plan was amended on July 11, 2006 to provide that eligible directors receive an initial option grant upon being appointed to our Board of Directors to purchase 2,041 shares of our common stock, and a grant of options to purchase an additional 1,020 shares on the first day of January beginning on the second January following the date the director became an eligible director. These options had an exercise price equal to the closing price of our common stock on the grant date and a term of ten years. The initial options vested on first day of January following the initial grant date or six months following the initial grant date, whichever is later, if the individual is still a director on the vesting date.

The Directors Plan was replaced in June 2010 by the 2010 Non-Employee Directors' Stock Plan. The 2010 Directors' Plan provides for the granting of stock to Non-Employee directors to compensate them for their services to the Company. The use of the shares available under the 2010 Directors' Plan is administered by the Company's Board of Directors, which has delegated its powers to the Compensation Committee of the Board of Directors. The Compensation Committee has determined under the 2010 Directors' Plan to grant non-employee directors restricted shares of Company stock with the following market values on the date of grant:

	Market Value of Grant	
For Board Service:		
Each director upon initial election:	\$	40,000
Annual grant to each director:	\$	20,000
For Committee Service:		
<u>Audit Committee:</u>		
Chairman	\$	15,000
Members	\$	10,000
<u>Compensation Committee:</u>		
Chairman	\$	10,000
Members	\$	5,000
<u>Nominating Committee:</u>		
Chairman	\$	5,000

Members

\$

2,500

7

Table of Contents

Half of the shares received pursuant to this plan vest immediately and the remaining shares vest on the one year anniversary of the initial grant, or in the case of grants for committee service, on the date that the term of the service ends, typically the date of our annual meeting of stockholders. Shares for Board service are granted on the first business day of the year and shares for committee service are granted upon appointment to the committee following the annual meeting of stockholders. Newly appointed directors receive their initial grant on a prorated basis on their date of appointment.

During 2012, we granted 4,385 shares of restricted stock to directors for their service to the Board and 4,348 shares for service on Board committees. Of these shares, 6,643 shares vested during 2012 and 2,090 vested in June 2013.

Directors who are also our employees receive no additional compensation for their services as directors.

Director Compensation Table

The following table provides compensation information for the year ended December 31, 2012 for each of our non-executive directors.

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)(1)	Option Awards (\$)	All Other Compensation (\$)	Total (\$)
Gregory T. Barnum (3)		40,000			40,000
Christopher Capps (3)		32,499			32,499
Joseph F. Desmond (2) (3)		20,000			20,000
Stephen Glick (3)		43,389			43,389
Richard P. Kiphart (3)		32,499			32,499

(1) Represents the grant date market value of shares granted during 2012.

(2) Mr. Desmond resigned from the Board effective April 27, 2012 at which time half of his 2012 stock award was forfeited.

(3) The following table sets forth the (i) number of shares of stock granted through stock awards through December 31, 2012, and (ii) the number of options outstanding as of December 31, 2012 for each of our non-executive directors:

Director Name	Number of Stock Awards	Total Options Outstanding
Gregory T. Barnum	4,329	19,916

Edgar Filing: LIME ENERGY CO. - Form DEF 14A

Christopher Capps	2,716	15,779
Joseph F. Desmond	235	
Stephen Glick	3,036	2,041
Richard P. Kiphart	3,100	6,255

Table of Contents

Committees of the Board of Directors

The Board of Directors has an Audit Committee, Compensation Committee and a Governance and Nominating Committee.

Audit Committee

The Audit Committee, which is composed entirely of non-employee, independent directors, held five meetings during 2012 and twelve meetings of the special subcommittee of the Audit Committee. Each of the members of the Audit Committee attended at least 75% of the meetings of the Committee held in 2012 and each member of the special subcommittee attended at least 75% of the meetings of the subcommittee held in 2012. The Audit Committee meets periodically and separately in executive sessions with management and the independent auditors to review the activities of each. The Audit Committee possesses and may exercise the powers of the Board of Directors relating to our accounting, auditing, and financial reporting matters, except when such powers are by statute, the Certificate of Incorporation or Bylaws reserved to the full Board or delegated to another committee of the Board. The Audit Committee reports regularly to the full Board on these matters. The Audit Committee is directly responsible for the appointment, compensation, and oversight of our independent auditors. Among other duties, the Audit Committee:

- recommends the independent auditors to the Board;
- pre-approves all audit and non-audit services provided to us by the independent auditors;
- monitors the independence of the independent auditors;
- reviews and approves:
 - the scope and timing of work to be performed by the independent auditors
 - compensation to be paid to the independent auditors
 - financial accounting and reporting principles used by the Company

Edgar Filing: LIME ENERGY CO. - Form DEF 14A

- results of the audit and the report of the independent auditors
- transactions involving the Company and our officers, directors, affiliates and significant stockholders
- discusses our annual audited financial statements and quarterly financial statements with management and the independent auditors;
- considers allegations made, if any, of possible financial fraud or other financial improprieties;
- prepares an Audit Committee report as required by the SEC to be in this proxy statement; and
- reviews and reassesses the adequacy of the Audit Committee charter at least annually.

The Audit Committee's current members are directors Greg Barnum (Committee Chairman), Christopher Capps and Stephen Glick. Our Board of Directors has determined that Mr. Barnum qualifies as an "audit committee financial expert" as defined in Item 407(d)(5) of SEC Regulation S-K. The Board also believes that Messrs. Barnum, Capps and Glick are "independent" as defined by NASDAQ Rule 5605(a)(2). The Board of Directors adopted an Audit Committee Charter effective April 19, 2000, which was amended effective January 31, 2001 to combine the Conflicts Committee with the Audit Committee. A copy of the Audit Committee's charter is available on our website (www.lime-energy.com) under the heading "Investors."

Table of Contents

Compensation Committee

The Compensation Committee, which is composed of three independent directors Richard Kiphart (Committee Chairman), Greg Barnum and Stephen Glick, was formed in 2001 upon the Board of Directors' adoption of a Compensation Committee charter. The Compensation Committee did not hold any meetings during 2012. A copy of the Compensation Committee's charter is available on our website (www.lime-energy.com) under the heading Investors. The Compensation Committee's responsibilities are to:

- review and recommend to the Board of Directors the annual salary, bonus, stock options and other benefits of our senior executives;
- review executive compensation programs and the administration thereof;
- plan for executive development and succession;
- review expense accounts and fringe benefits of executive management;
- administer our stock option and stock incentive programs; and
- review and recommend to the Board of Directors the compensation of members of the Board of Directors.

Governance & Nominating Committee

The Governance and Nominating Committee, which is composed of two independent directors Stephen Glick (Committee Chairman) and Richard Kiphart, was formed in 2004 upon the Board of Directors' adoption of a Governance and Nominating Committee Charter. A copy of the Governance and Nominating Committee's charter is available on our website (www.lime-energy.com) under the heading Investors. The Board believes that Messrs. Glick and Kiphart are independent directors as defined by NASDAQ Rule 5605(a)(2). Prior to the establishment of the Governance and Nominating Committee, the recruitment and selection of candidates for Board of Directors was handled by the Compensation Committee. The Governance and Nominating Committee did not meet during 2012. The Governance and Nominating Committee's responsibilities are to:

- develop and recommend to the Board of Directors policies and processes designed to provide for effective and efficient governance;

- plan Board education activities, including new member orientation;
- evaluate the size and composition of the Board of Directors, develop criteria for membership on the Board of Directors, and evaluate the independence of existing and prospective directors, and make recommendations to the Board concerning such matters;
- seek and evaluate qualified individuals to become directors;
- evaluate the nature, structure and composition of other committees of the Board of Directors and make recommendations to the Board concerning such matters; and
- assess the performance of the Board of Directors.

Selection of Board Nominees

Our Governance and Nominating Committee is responsible for identifying and evaluating Board candidates using one or more informal processes deemed appropriate for the circumstances. All of our directors and executive officers play a significant role in bringing potential candidates to the attention of

Table of Contents

the Committee. A determination of whether to pursue discussions with a particular individual will be made after discussion by the Committee and may be preceded by formal or informal discussions involving one or all of the other Board members. Information considered by the Committee may include information provided by the candidate, the chief executive officer and one or more Committee or Board members. The Committee seeks candidates whose qualifications, experience and independence complement those of existing Board members. Board candidates are expected to possess high personal and professional ethics, integrity and values, and relevant business experience and to be committed to representing the long-term interests of all stockholders. They are also expected to have an inquisitive and objective perspective, practical wisdom and good judgment.

Once appropriate candidates have been identified, the Committee will recommend nominations to our Board. Our Governance and Nominating Committee has not adopted a policy or procedure for the consideration of director candidates recommended by stockholders. Our Board does not recall an instance in which a stockholder (other than a stockholder serving as an officer or director) has recommended a director candidate; however, the Governance and Nominations Committee will consider all timely stockholder recommendations. For the 2014 Annual Meeting of Stockholders, nominations may be submitted to the Corporate Secretary, Lime Energy Co., 16810 Kenton Drive, Suite 240, Huntersville, NC 28078, which will forward them to the Chairman of the Governance and Nominating Committee. Recommendations must be in writing, must specify the candidate's qualifications for serving as a director and must be received by us not later than August 25, 2014, in order for nominees to be considered for election at our 2014 Annual Meeting of Stockholders.

Codes of Conduct and Business Ethics

We have adopted a code of ethics as part of our compliance program. This code of ethics applies to our chief executive officer and our chief financial officer. In addition, we have a Code of Conduct and Business Ethics that applies to all of our officers, directors and employees. These codes of ethics are available on our website (www.lime-energy.com) under the heading Investors. We intend to post amendments to or waivers from the Code of Ethics which are applicable to our directors, principal executive officer and principal financial officer at this location on our website.

Table of Contents

EXECUTIVE OFFICERS

The table below identifies our executive officers who are not identified in the table under Nominees for Director.

Name	Age	Position Held with the Company
C. Adam Procell	45	President and Chief Operating Officer
Jeffrey R. Mistarz	55	Executive Vice President, Chief Financial Officer, Treasurer and Corporate Secretary

C. Adam Procell, has been our president and chief operating officer since September 2013. From April 2009 to September 2013, he served as divisional president and as vice president of sales and marketing. Prior to joining the Company in April 2009, Mr. Procell served as the national director of energy efficiency & carbon management for AECOM Technology Corporation (ACM: NYSE).

Jeffrey R. Mistarz has been our chief financial officer since January 2000, our treasurer since October 2000, an executive vice president since November 2002, our assistant secretary since February 2003 and our secretary since June 2006. From January 1994 until joining us, Mr. Mistarz served as chief financial officer for Nucon Corporation, a privately held manufacturer of material handling products and systems, where he was responsible for all areas of finance and accounting, managing capital and stockholder relations. Prior to joining Nucon, Mr. Mistarz was with First Chicago Corporation (now JPMorgan Chase & Co.) for 12 years where he held several positions in corporate lending, investment banking and credit strategy.

SECURITY OWNERSHIP OF PRINCIPAL STOCKHOLDERS AND MANAGEMENT

The following tables set forth information regarding the beneficial ownership of our securities as of October 11, 2013 by:

- each person known by us to be the beneficial owner of more than 5% of the outstanding shares of our voting securities;
- each of our directors and named executive officers, and
- all of our directors and executive officers as a group (ten persons).

Edgar Filing: LIME ENERGY CO. - Form DEF 14A

Each stockholder's beneficial ownership is based on 3,450,093 shares of Lime common stock outstanding as of October 15, 2013. Beneficial ownership is determined in accordance with the rules of the SEC. Except as otherwise noted, the persons or entities named have sole voting and investment power with respect to all shares shown as beneficially owned by them, and the address of each person listed in the following table is c/o Lime Energy Co., 16810 Kenton Drive, Suite 240, Huntersville, NC 28078.

Table of Contents**Beneficial Owners of Greater Than 5% of Our Common Stock:**

Name	Common Shares Directly Held	Issuable Upon Exercise of Options Exercisable Within 60 Days (1)	Issuable Upon Exercise of Warrants (2)	Issuable Upon Conversion of Preferred Stock (3)	Total	%
The John Thomas Hurvis Revocable Trust dated March 8, 2002	11,368		319,435	872,418	1,203,221	25.145%
Nettlestone Enterprises Limited	130,412		106,610	295,661	532,684	13.332%
Richard Kiphart	1,524,187	6,255	517,452	1,269,243	3,317,137	61.586%

Directors and Executive Officers:

Name	Common Shares Directly Held	Issuable Upon Exercise of Options Exercisable Within 60 Days (1)	Issuable Upon Exercise of Warrants (2)	Issuable Upon Conversion of Preferred Stock (3)	Total	%
Greg Barnum	9,275	19,916			29,191	*
Chris Capps	8,848	15,779	5,331	17,683	47,641	1.312%
Stephen Glick	94,811	2,041			96,852	2.694%
Richard Kiphart	1,524,187	6,255	517,452	1,269,243	3,317,137	61.586%
Jeffrey Mistarz	8,732	68,559			77,291	2.111%
John O Rourke	30,176	113,859			144,035	3.885%
C. Adam Procell	2,868	20,542			23,410	*
All Directors and Executive Officers as a Group	1,678,897	246,951	522,783	1,286,926	3,735,557	66.117%

* Denotes beneficial ownership of less than 1%.

(1) Represents warrants and options to purchase our common stock exercisable within 60 days of October 11, 2013.

(2) Until our shareholders approve the issuance of our common stock upon the exercise of the warrants that we issued on September 23, 2013, no shares are issuable upon the exercise of those warrants. We are seeking such approval at the Annual Meeting. See *Proposal 2 Approval of The Issuance of Conversion and Warrant Shares*. Absent such approval, the number of shares of common stock issuable upon exercise of warrants held by (a) The John Hurvis Revocable Trust is 266,525, (b) Nettlestone Enterprises is 106,610, (c) Mr. Kiphart is 316,525 and (d) Mr. Capps is 5,331.

(3) Until our shareholders approve the conversion of our preferred stock into our common stock, no shares are issuable upon conversion of preferred stock. We are seeking such approval at the Annual Meeting. See *Proposal 2 Approval of The Issuance of Conversion and Warrant Shares*.

Changes in Control

We are not aware of any arrangements, including any pledge by any person of our stock, the operation of which may at a subsequent date result in a change of control of the Company.

Table of Contents

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16 of the Securities Exchange Act of 1934 requires our directors and officers (as defined in Section 16) and persons who beneficially own greater than 10% of a registered class of our equity securities to file reports of ownership and changes in ownership with the Securities and Exchange Commission. The required reports consist of initial statements on Form 3, statements of changes on Form 4 and annual statements on Form 5. Directors, officers and greater than 10% stockholders are required by Securities and Exchange Commission rules to furnish us with copies of all Section 16(a) reports filed. Based solely on our review of the reports we have received and on written representations from our officers who are reporting persons, we believe that during 2011 all Section 16 filing requirements applicable to our directors, officers and 10% beneficial owners were complied with by these persons.

TRANSACTIONS WITH RELATED PERSONS, PROMOTERS AND CONTROL PERSONS

On May 15, 2012, we sold Richard Kiphart 142,857 shares of our common stock at the then-most recent consolidated closing bid price on the NASDAQ Capital Market of \$17.85 per share or \$2,550,000 in the aggregate pursuant to a subscription agreement between us and him. The sale of the shares was registered on the Company's Registration Statement on Form S-3 (SEC File No. 333-176622). Mr. Kiphart is our Chairman of the Board and holds more than five percent of our outstanding common stock. Proceeds from the sale were used for general corporate purposes.

On October 22, 2012, we entered into a Convertible Note and Warrant Purchase Agreement with a group of investors including Mr. Kiphart and Christopher Capps, a member of our Board of Directors. Pursuant to the terms of the purchase agreement, the investors loaned us \$6,050,000 pursuant to Subordinated Secured Convertible Pay-In-Kind Notes. The notes had a term of five years and accrued interest at the rate of 12-1/2% per year, payable semi-annually at the Company's election in cash or additional notes. Mr. Kiphart purchased notes with a principal amount of \$2,500,000 and Mr. Capps purchased notes with a principal amount of \$50,000. No principal payments have been made. As discussed below, the notes and accrued interest were converted into shares of convertible preferred stock on September 23, 2013. During fiscal year 2012, we paid \$59,932 of interest on the notes, all in the form of additional notes of like tenor. In connection with the entry into the purchase agreement, we issued the investors warrants to purchase 644,991 shares of its common stock at \$4.69 per share. These warrants expire on the 5th anniversary of their issuance and contain a cashless-exercise option. Mr. Kiphart received warrants to purchase 266,525 shares and Mr. Capps received warrants to purchase 5,331 shares.

On December 7, 2012, we entered into a Letter of Credit Agreement Mr. Kiphart. Pursuant to the agreement, Mr. Kiphart agreed to cause the issuance of one or more letters of credit for the benefit of a surety at our request, up to an aggregate amount of \$1,000,000. Mr. Kiphart's obligation to cause the issuance of, or leave in place, the letter of credit will terminate on December 7, 2013. We will indemnify Mr. Kiphart for any liability in connection with any payment or disbursement made under the letter of credit. We will also pay all of Mr. Kiphart's fees and out-of-pocket expenses incurred in connection with the letter of credit. As consideration for his obligations under the letter of credit agreement, we issued Mr. Kiphart a warrant to purchase 39,286 shares of our common stock at an exercise price of \$3.57 per share. The warrant has a three year term and may be exercised on a cashless basis at Mr. Kiphart's election.

Table of Contents

On September 23, 2013, we entered into a Preferred Stock and Warrant Purchase Agreement (the "Purchase Agreement") with a group of investors including Mr. Kiphart, and Mr. Capps (collectively with the other investors, the "Investors"). Pursuant to the terms of the Purchase Agreement, the Investors purchased 927,992 shares of our Series A Preferred Stock (the "Preferred Shares") at a price per Preferred Share of \$10.00. The purchase price was paid with (a) \$2,500,000 in cash and (b) the exchange of \$6,779,949.84 (principal amount and accrued interest) of our Subordinated Secured Convertible Pay-In-Kind Note (the "Notes"), representing all of the outstanding Notes and accrued interest through September 23, 2013.

The Preferred Shares are entitled to an accruing dividend of 12.5% per annum of their original issue price (subject to adjustment for stock splits, combinations and similar recapitalizations), payable semi-annually in arrears. Such dividends shall be paid in additional shares of Series A Preferred Stock at the original issue price (subject to adjustment for stock splits, combinations and similar recapitalizations) or, at the sole discretion of our board of directors, in cash.

The Preferred Shares may be converted, at any time following the approval of such conversion by our common stockholders, at the election of the holder of such share, into shares of our common stock at a conversion price equal to \$3.78 per share (the "Conversion Price"). The Conversion Price shall be proportionately adjusted for stock splits, combinations and similar recapitalizations, and, subject to a floor of \$3.50, shall be adjusted for future issuance of common stock (excluding certain issuances) at a price per share less than the Conversion Price on a broad based, weighted average basis. We can require conversion of the notes if the weighted average price for the our common stock is at least two hundred percent (200%) of the Conversion Price for at least 20 trading days during a 30 trading day period ending within 5 trading days prior to us sending a notice of forced conversion to the holders of the Notes.

We may redeem all or a portion of the Preferred Shares at its option at any time unless prohibited by Delaware law governing distributions to stockholders. The redemption price for each Preferred Share shall be its original issue price (subject to adjustment for stock splits, combinations and similar recapitalizations) plus any accrued but unpaid dividends multiplied by a factor based on the date of the notice of such redemption is sent to holders of the Preferred Shares. If such notice is sent before the first anniversary of the issuance of the Preferred Shares, the factor shall be 103%, if thereafter but before the second such anniversary, the factor shall be 102%, if thereafter but before the third such anniversary, the factor shall be 101% and thereafter, the factor shall be 100%.

In connection with the entry into the Purchase Agreement, we issued the Investors warrants to purchase 264,551 shares of its common stock at \$3.78 per share (the "Warrants"). These warrants expire on the fifth anniversary of their issuance and contain a cashless-exercise option. The Warrants may not be exercised until our common stockholders approve the exercise of the Warrants. Mr. Kiphart received warrants to purchase 211,641 shares of our stock as part of this transaction.

Table of Contents

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

We compensate our executives by using a balanced approach, which combines fixed and performance-based compensation, annual and long-term compensation, and cash and equity compensation. We determine this mix by reviewing the mix offered by other companies of our size and in our industry. We do not have a specific policy for the allocation of compensation between fixed and performance-based compensation, annual and long-term compensation, and cash and equity compensation.

We manage our business with the long-term goal of creating and maximizing shareholder value, and, accordingly, a significant percentage of our executive compensation is at risk and weighted towards company performance, long-term incentives and stock price appreciation. We think this is a key to our long-term success. While we prepared restatements of our financial statements for the years 2008 to 2011 and the first quarter of 2012 and conducted a related investigation, we did not pay our named executives a bonus or grant them any equity compensation, so no such compensation was paid or granted during 2012, we anticipate, however, that the components of future compensation will more closely mirror those received in 2011. The following chart illustrates the allocation of the principal compensation components for our current named executive officers for 2011. The percentages reflect the amounts of 2011 salary and targeted annual cash incentive compensation and the aggregate grant date fair values of stock options and shares of restricted stock granted in 2011. For 2011, 58.9% of these principal compensation components for our current named executive officers in the aggregate were variable, including 48.4% which was tied to performance of our stock price.

(1) Includes severance paid to Mr. Parke.

Current Executive Officers

We currently have three executive officers: John O Rourke, our Chief Executive Officer, C. Adam Procell, our President and Chief Operating Officer and Jeffrey Mistarz, our Chief Financial Officer.

Table of Contents

Overview of Executive Compensation Program

Prior to 2009, we did not have a formalized program for determining executive compensation. Two of the three current executive officers (Messrs. O'Rourke and Procell) receive the majority of their compensation pursuant to written employment agreements that were negotiated in connection with their becoming our employee. The employment agreements approved and the terms were negotiated at the time in light of specific circumstances.

Notwithstanding the absence of a formalized compensation program, our executive officers have generally received compensation consisting of three components:

- a cash component, consisting of salary meant to be competitive with salaries such individuals could obtain from other employers;
- eligibility for annual cash bonuses determined by the Compensation Committee based on our performance and the executive's achievement of individual objectives; and
- stock options intended to reward achievement of long-term goals and align the interests of our executive officers with those of our stockholders.

In addition, we also provided Messrs. O'Rourke and Procell with a monthly allowance due to the fact that they use their cars extensively for Company business. Executive officers participate in group health and disability insurance on the same basis as other full-time employees and Mr. Mistarz was offered individual life and disability insurance policies as part of his hiring agreements.

Except as noted above with respect to the current employment agreements with Mr. O'Rourke and Procell, the Compensation Committee of the Board of Directors makes all compensation decisions for our executive officers. Generally, compensation decisions for executive officers other than our chief executive officer have been made by the Compensation Committee pursuant to recommendations made by our chief executive officer.

In 2009 we retained the consulting firm of Towers Perrin (which has since changed its name to Towers Watson) to assist us in formalizing our executive compensation program and to help ensure that our compensation program is consistent with current market practices. After consultation with Towers Perrin, on August 4, 2009, our Compensation Committee recommended to our board, and our board adopted, our 2009 Management Incentive Compensation Plan (the 2009 Plan). Under the terms of the 2009 Plan, our executive officers are the initial group of participants eligible for cash awards and, in lieu of cash awards, equity-based awards (subject to the availability of shares of common stock and the other terms our 2008 Long-Term Incentive Plan) based upon specified criteria to be determined and approved of by our Compensation Committee, or as otherwise provided in the 2009 Plan.

Edgar Filing: LIME ENERGY CO. - Form DEF 14A

Performance goals for 2009 Plan participants were set in various goal categories, including, but not necessarily limited to: (a) Company performance objectives, comprising revenue and earnings before interest, taxes, depreciation, amortization and stock-based compensation targets, and (b) individual performance objectives. The relative weight among the performance goal categories vary based on the participant's position within the Company. The weighting will be reviewed annually and may be adjusted by our Compensation Committee.

Each participant is informed at the beginning of, or soon after the beginning of, each fiscal year, of his or her 2009 Plan base salary, which will be the basis for determining the award opportunity for that participant, and which amount will be allocated among the participant's performance goal categories. In addition, the 2009 Plan provides that the Compensation Committee will set three performance levels,

Table of Contents

Threshold, Target and Maximum levels set as a percentage for each performance goal category. Award objectives for 2012 were set based in part upon the 2012 budget which was approved by the Board prior to the end of 2011.

Objectives of Compensation Program

Compensation of our executive officers is intended to reward improved overall financial performance of the Company, and to reward performance achievements and increases in stockholder value over the long term.

- Annual salaries for executive officers have been established with the goal of attracting and retaining qualified individuals for the positions. These salaries have been determined on a case-by-case basis.
- Short-term incentive compensation awards are intended to reward our Executives for the achievement of annual performance criteria and are flexible and change based on the needs of our business. These awards are generally determined pursuant to our 2009 Plan, although the 2009 Plan does not prohibit discretionary bonuses in addition to those under the plan. Short-term compensation has historically taken the form of cash bonuses and stock awards.
- Restricted stock grants and stock options awards are intended to reward achievement leading to increases in our profitability and stockholder value over the longer term. The amounts awarded are determined as prescribed in the 2009 Plan.

To motivate executive officers to achieve the longer-term goal of increasing our profitability and stockholder value, and to reward them for achieving such long-term goals, stock awards and stock options have been included as part of the compensation structure for our executive officers. These awards provide an increased opportunity for equity ownership by our executive officers, thereby further aligning their interest with those of our stockholders. These grants are generally made in a manner consistent with the 2009 Plan, though the Compensation Committee has latitude to determine the amount of short-term incentive compensation to be paid in the form of cash versus stock grants. All stock grants have been in the form of restricted stock, which vests ratably over a three-year period dependent on the executive's continued employment by us. A typical stock option grant has been structured to have a ten-year exercise period, to vest over a three year period, with vesting also depending upon the executive remaining employed by us, and to have an exercise price equal to the market price on the grant date. In certain cases, options have been granted at an exercise price higher than the market price. We have not granted options with an exercise price that is less than the market price on the grant date. As further incentive to achieve certain long-term objectives, during 2010 we granted nine employees, including the named executive officers, options that will only vest if certain specific financial and stock performance objectives are achieved within a five-year period. These options are further described below.

We do not have a formula for allocating between cash and non-cash compensation. The number of shares of restricted stock and stock options awarded to an executive officer has been decided on a case-by-case basis taking into consideration other components of compensation, not pursuant to any specific guidelines or program.

Edgar Filing: LIME ENERGY CO. - Form DEF 14A

A copy of the 2009 Management Incentive Compensation Plan was filed as an exhibit to our Current Report on Form 8-K dated August 4, 2009 filed with the Securities and Exchange Commission on August 7, 2009.

Table of Contents

On April 16, 2010, the Compensation Committee approved the grant of options (the *Cliff Options*) to purchase 102,857 shares of stock to a group of nine senior employees of the Company, including the three named executive officers. These options were granted to provide additional incentive to these senior managers to achieve certain objectives within a set period of time which the Board believes will greatly benefit stockholders. The significant terms of these options are as follows:

- Exercise price of \$31.50 per share;

- The options will vest at any time prior to December 31, 2015 if:
 - the closing market price for our common stock has exceeds \$140 per share on any trading day,
 - we have publicly reported annual revenue for any fiscal year in excess of \$242 million, and
 - our publicly reported adjusted EBITDA for any fiscal year in excess of \$24 million;

- The options will immediately vest on a Change of Control in which more than 50% of the shares of our common stock are acquired by any individual, entity or group for a price in excess of \$105 per share, excluding, subject to certain exceptions, acquisitions by the Company, acquisitions from the Company and acquisitions by employee benefit plans; and

- The options will terminate 10 years from the grant date or three months following the termination of the holder's employment with the Company unless such termination is involuntary and not for Due Cause.

Messrs. O'Rourke and Mistarz received Cliff Options to purchase 14,286 shares of our common stock and Mr. Procell received Cliff Options to purchase 10,715 shares of our common stock under these terms.

A copy of the Form of these Cliff Options was filed as an exhibit to our Current Report on Form 8-K dated April 16, 2010 filed with the Securities and Exchange Commission on April 22, 2010.

Clawback Provisions

The Company does not currently have a policy requiring a fixed course of action with respect to compensation adjustments following later restatements of financial results beyond what is required under the Sarbanes-Oxley Act. Under those circumstances, the Compensation Committee would evaluate whether compensation adjustments are appropriate based upon the facts and circumstances surrounding the restatement. Under the Dodd-Frank Wall Street Reform and Consumer Protection Act (*Dodd-Frank*), the Securities and Exchange Commission is required to promulgate new regulations to require companies to adopt a policy to recover certain compensation in the event of a material

accounting restatement. The SEC has not yet issued these regulations, but we will adopt a policy after the regulations are finalized and their requirements are known.

Accounting and Tax Considerations

Financial Accounting Standards Board Accounting Standards Codification Topic 718 (formerly known as SFAS No. 123(R)), requires a charge to compensation expense for the fair value of equity compensation awards. Grants of options and restricted stock are accounted for under ASC 718. The Compensation Committee considers the accounting implications of significant compensation decisions, particularly in connection with decisions that relate to the Company's long-term incentive awards.

Table of Contents**2012 Summary Compensation Table**

The following table sets forth the compensation earned, awarded or paid for services rendered to us for the year ended December 31, 2012 and the year ended December 31, 2011 by our principal executive officer (PEO), our principal financial officer (PFO), our executive chairman of the board and our former president. These persons are referred to, collectively, as the named executive officers.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$) (5)	Option Awards (\$) (6)	All Other Compensation (\$)	Total (\$)
David R. Asplund	2012	117,575				22,561(7)	140,136
<i>Executive Chairman (1)</i>	2011	296,160	90,000	109,500	184,639	48,757(8)	729,056
Jeffrey R. Mistarz	2012	225,000				5,141(9)	230,141
<i>Executive Vice President & Chief Financial Officer (PFO)</i>	2011	222,117	67,500	70,875	108,375	4,612(10)	473,479
John O Rourke	2012	285,000				7,712(11)	292,712
<i>Chief Executive Officer(PEO) (2)</i>	2011	268,226	85,500	86,250	1,177,075	7,763(12)	1,624,814
Daniel W. Parke	2011	114,586		109,500	184,639	416,743(13)	825,468
<i>President (3)</i>							
C. Adam Procell	2012	239,231	20,000			6,434(14)	265,665
<i>President & Chief Operating Officer (4)</i>	2011	196,154	161,750	18,000	42,000	5,395(15)	381,299

(1) Mr. Asplund was our Chief Executive Officer until May 20, 2011 and was our Executive Chairman from May 20, 2011 until June 2, 2012. He took a leave of absence from his position as Executive Chairman on June 2, 2012 and has since died.

(2) Mr. O Rourke was named President and Chief Executive Officer on May 20, 2011, prior to this he served as Chief Operating Officer. On September 23, 2013, he relinquished the title of President.

(3) Mr. Parke resigned on June 2, 2011, effective May 31, 2011.

(4) Mr. Procell was named President and Chief Operating Officer on September 23, 2013.

(5) Represents the value of restricted shares based on the market price of the shares on the date of grant.

(6) Amounts for 2012 and 2011 represent the aggregate grant date fair value of option awards granted during the periods, calculated using a trinomial lattice option pricing model. The value weighted-average significant assumptions used to determine the grant date fair values are as follows:

Significant Assumption (value weighted-average)	2012 (1)	2011
Risk-free rate	%	0.08%
Dividend yield	%	0%
Expected volatility	%	81.9%
Expected life (years)	%	6.0
Turn-over rate	%	4.8%
Exercise multiple		2.2

(1) No options were granted to any of the named executives during 2012

Table of Contents

- (7) Includes \$18,443 for the cost of life and long-term disability insurance, \$2,792 of auto-allowance and the \$1,325 cost of membership to a business club provided to Mr. Asplund.
- (8) Includes \$38,977 for the cost of life and long-term disability insurance, \$6,600 of auto allowance and the \$3,180 cost of membership to a business club provided to Mr. Asplund.
- (9) Represents the cost of life insurance and long-term disability insurance provided to Mr. Mistarz.
- (10) Represents the cost of life insurance and long-term disability insurance provided to Mr. Mistarz.
- (11) Includes \$7,200 for the cost of a leased vehicle provided to Mr. O Rourke and \$512 cost of group life and disability insurance provided to Mr. O Rourke.
- (12) Includes \$7,200 for the cost of a leased vehicle provided to Mr. O Rourke and \$563 cost of group life and disability insurance provided to Mr. O Rourke
- (13) Includes \$394,344 severance payment, \$18,156 of accrued vacation, \$4,000 of auto allowance and \$243 for the cost of group life and long-term disability insurance provided Mr. Parke.
- (14) Includes \$6,000 of auto allowance and \$434 cost of group life and disability insurance provided to Mr. Procell.
- (15) Includes \$5,000 of auto allowance and \$395 cost of group life and disability insurance provided to Mr. Procell.

Employment Contracts, Termination of Employment and Change-in-Control Arrangements

Messrs. Mistarz and O Rourke

Edgar Filing: LIME ENERGY CO. - Form DEF 14A

We have employment agreements with each of our current named executive officers: Jeffrey Mistarz and John O Rourke. These agreements fix each of the officer's minimum base compensation, and the current annual salary for 2013 for each is as follows: Mr. Mistarz \$225,000 and Mr. O Rourke \$285,000. Each of these employment agreements terminates on December 31, 2014 and provides for the automatic renewal of each contract for an additional, successive two year periods if the Company does not provide the Executive with a notice of non-renewal before July 1st of the year in which the contract is scheduled to expire. In addition to his base salary, Mr. O Rourke is also entitled to a monthly automobile allowance of \$600.

Under their employment agreements, each of the current named executive officers are entitled to certain benefits if their employment terminates for certain reasons. If he should die during the term of his contract, most, if not all, of his unvested stock options would immediately vest. In addition, all such stock options and any previously vested stock options would be exercisable for a period of one year following the date of death.

If any of the current named executive officers should become permanently disabled such that he could not perform his duties for 180 consecutive days or for 180 days in any period of 12 consecutive months, we would have the right to terminate his employment, then any stock options which were then already vested would be exercisable for a period of between 90 and 180 days following such termination.

If any of the current named executive officers should terminate his employment during the term of the contract for reasons other than death, disability or uncured default by us under the agreement, then any vested stock options as of the date of termination shall be exercisable for 90 days following the date of termination.

If we should terminate any of the current named executive officers prior to the scheduled expiration of his respective contract, for any reason other than death, disability or Due Cause, as defined in the employment agreement, or if any of the current named executive officers should choose to terminate his employment because we defaulted in our obligations under the agreement and failed to cure such default after notice, then all of his unvested stock options will immediately vest and would be

Table of Contents

exercisable for a period of three months following the date of termination. Additionally, we will pay the terminated current named executive officer, as severance compensation, (i) six months' salary at his then current rate, in installments in accordance with our regular payroll, plus (ii) any bonus earned as of the termination date, in accordance with the terms of such bonus, plus (iii) any accrued unused vacation, which will be paid on the next regular payroll date.

Due Cause is defined as any of (i) a material breach by the respective current named executive officer of his agreement not cured within 15 calendar days following written notice thereof, (ii) commission of a felony, or theft or embezzlement of our property, (iii) actions which result in material injury to our businesses, properties or reputation, (iv) refusal to perform or substantial neglect of the duties assigned to the respective officer not remedied within 15 calendar days following written notice thereof, or (v) any material violation of any statutory or common law duty of loyalty to us.

In addition to the foregoing, upon occurrence of a change of control, all the stock options granted to the current named executive officers shall immediately vest and become exercisable, except for an option to purchase 3,571 shares granted to Mr. O'Rourke as part of his initial hiring agreement. In addition, the Cliff Options will only vest if the change of control occurs at a stock price in excess of \$105 per share. In general, a Change of Control is deemed to have occurred when (i) we are merged or consolidated with another entity that is not then controlled by us and an unrelated entity acquires the ability to elect a majority of our Board of Directors or holds a majority of our common stock, or (ii) a majority of our assets are sold or otherwise transferred to another entity that is not then controlled by or affiliated with us.

Each of the employment agreements of Messrs. Mistarz and O'Rourke imposes non-competition, non-solicitation and confidentiality obligations, which are not separately compensated. The non-competition obligation covers the employment period and extends for two years after termination in the case of Mr. Mistarz and for six months after termination in the case of Mr. O'Rourke.

Mr. Procell

Mr. Procell entered into an employment agreement with a subsidiary of the Company in March 2009. The employment agreement currently provides that Mr. Procell's annual base salary shall be determined by the Company in its sole discretion and that he shall be eligible for an annual bonus of up to 50% of his annual base salary. Mr. Procell's current annual base salary is \$240,000. The employment agreement currently does not provide for any fixed period of employment or severance payments. The agreement imposes non-competition, non-solicitation and confidentiality obligations, which are not separately compensated. The non-competition obligation covers the employment period and extends for one year after termination.

Table of Contents**Potential Payments Upon Termination or Change In Control**

The following table show potential payments to the current named executive officers under existing contracts, agreements, plans or arrangements, whether written or unwritten, for various scenarios involving a change-in-control or termination of employment assuming a December 31, 2012 termination date and, where applicable, using the closing price of our common stock of \$4.06 per share on that date.

Name	Voluntary Termination (1)	Involuntary Termination - Not For Cause (2)	Involuntary Termination - For Cause (3)	Change in Control (4)	Death (5)	Disability (5)
Jeffrey R. Mistarz	\$ 4,327	\$ 116,827	\$ 4,327	\$ 0	\$ 4,327	\$ 4,327
John O Rourke	\$ 5,481	\$ 147,981	\$ 5,481	\$ 0	\$ 5,481	\$ 5,481
C. Adam Procell	\$ 4,615	\$ 0	\$ 4,615	\$ 0	\$ 4,615	\$ 4,615

(1) None of the listed persons are entitled to more than accrued but unpaid salary and vacation upon a voluntary termination of their employment.

(2) Under the terms of their employment contracts, Messrs. Mistarz and O Rourke are entitled to any accrued but unpaid salary and vacation as well as six months severance pay for an involuntary termination of their employment without cause.

(3) None of the listed persons are entitled to more than accrued but unpaid salary and vacation upon an involuntary termination for cause.

(4) None of the listed persons would be entitled to any payments upon a change of control unless they were involuntarily terminated without cause, but upon a change of control certain unvested options held by Messrs. Mistarz, O Rourke and Procell would immediately vest. As of December 31, 2012 the intrinsic value of executives options were as follows:

	Value*
Jeffrey Mistarz	\$ 0
John O Rourke	0
C. Adam Procell	0

* Calculated as the excess, if any, of the market value on December 31, 2012 of \$4.06 per share over the option strike price

(5)
disability.

None of the listed persons are entitled to more than accrued but unpaid salary and vacation upon their death or permanent

Table of Contents**Grants of Plan-Based Awards for 2012**

There were no equity grants to any of the named executives for 2012. Options and restricted stock granted on January 3, 2012 were in connection with 2011 compensation.

Outstanding Equity Awards at Fiscal Year-End 2012

The following table includes certain information with respect to the value of all unexercised options previously awarded to the named executive officers at December 31, 2012:

	Option Awards					Stock Awards			
	Grant Date	Number of Securities Underlying Unexercised Options		Option Exercise Price	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested	Market Value of Shares of Units That Have Not Vested	Equity incentive plan awards: Number of unearned shares, units or other rights that have not vested	Market of payout value of unearned shares, units or other rights that have not vested
Asplund, David	06/10/03	3		\$ 25.62	06/10/13				
	06/10/04	3		\$ 25.62	06/10/14				
	06/10/05	3		\$ 25.62	06/10/15				
	01/23/06	68		\$ 25.62	01/22/16				
	06/12/06	136		\$ 25.62	01/22/16				
	06/12/06	4,082		\$ 47.04	01/22/16				
	07/11/06	28,572		\$ 32.55	07/11/16				
	07/11/06	30,613		\$ 49.98	07/11/16				
	07/11/06	28,572		\$ 72.31	07/11/16				
	10/01/07	15,306		\$ 77.91	10/01/17				
	12/10/08	8,574		\$ 24.50	12/10/18				
	01/04/10	10,709		\$ 30.94	12/31/19				
	04/16/10	14,286		\$ 31.50	04/16/20				
	01/03/11	11,778		\$ 28.28	12/31/20				
	01/03/12	14,604		\$ 22.82	12/31/21				
Mistarz, Jeffrey	07/11/06	15,306		\$ 49.98	07/11/16				
	08/15/06	6,123		\$ 49.00	08/15/16				
	10/01/07	5,103		\$ 77.91	10/01/17				
	12/10/08	6,429		\$ 24.50	12/10/18				
	01/04/10	6,285		\$ 30.94	12/31/19				
	04/16/10		14,286	\$ 31.50	04/16/20				
	01/03/11	4,610	2,305	\$ 28.28	12/31/20	836	485		
	01/03/12	2,704	5,408	\$ 22.82	12/31/21	1,096	636		
O'Rourke, John	06/11/08	3,573		\$ 55.51	06/11/18				
	01/04/10	8,148		\$ 30.94	12/31/19				
	04/16/10		14,286	\$ 31.50	04/16/20				
	01/03/11	5,974	2,987	\$ 28.28	12/31/20	1,017	590		
	06/03/11	21,429	42,858	\$ 29.61	06/03/21				

Edgar Filing: LIME ENERGY CO. - Form DEF 14A

	01/03/12	4,868	9,736	\$ 22.82	12/31/21	1,972	1,144
Procell, C.							
Adam	04/06/09	2,859		\$ 25.90	04/06/19		
	04/16/10		10,715	\$ 31.50	04/16/20		
	01/03/11	2,050	1,024	\$ 28.28	12/31/20	425	475
	01/03/12	1,298	2,596	\$ 22.82	12/31/21	263	263

Table of Contents

(1) The vesting dates for the unexercisable options are as follows:

		Option Exercise Price	Quantity	Vesting Date
Mistarz, Jeffrey	\$	22.82	2,704	12/31/13
	\$	22.82	2,704	12/31/14
	\$	28.28	2,305	12/31/13
	\$	31.50	14,286	04/16/15(1)
O Rourke, John	\$	22.82	4,868	12/31/13
	\$	22.82	4,868	12/31/14
	\$	28.28	2,987	12/31/13
	\$	31.50	14,286	04/16/15(1)
	\$	29.61	21,429	06/03/14
Procell, C. Adam	\$	22.82	1,298	12/31/14
	\$	28.28	1,024	12/31/13
	\$	31.50	10,715	04/16/15(1)

(1) These options will vest if prior to December 31, 2015 the following conditions have been met:

- the closing market price for our common stock has exceeds \$140 per share on any trading day,
- we have publicly reported annual revenue for any fiscal year in excess of \$242 million, and
- our publicly reported adjusted EBITDA for any fiscal year in excess of \$24 million.
- Additionally, these options will immediately vest on a Change of Control in which more than 50% of the shares of our common stock are acquired by any individual, entity or group for a price in excess of \$105 per share, excluding, subject to certain exceptions, acquisitions by the Company, acquisitions from the Company and acquisitions by employee benefit plans.

Stock Options and Incentive Compensation

On June 4, 2008, our stockholders approved the adoption of the 2008 Stock Incentive Plan (the 2008 Plan), which replaced the 2001 Stock Incentive Plan, as amended. The 2008 Plan provided that up to 40,000 shares of our common stock could be delivered under the Plan to certain of our employees and to consultants and directors who are not employees. In addition, the 2008 Plan originally provided for an additional number of shares of our common stock to be reserved for issuance under the plan on January 1st of each succeeding year, beginning January 1, 2010, in an amount equal to 14,286 shares. On November 26, 2008, our Compensation Committee approved amendments the 2008 Plan to i) increase the maximum number of shares of Common Stock authorized for issuance under the 2008 Plan by 50,000 shares, from 40,000 shares to 90,000 shares, and (ii) raise the automatic increases in the number of shares available for awards by 21,429 shares, from 14,286 to 35,715, each year beginning in 2010. The holders of a majority of our outstanding capital stock approved the Plan Amendment pursuant to a consent dated November 26, 2008. On March 25, 2010, the Compensation Committee approved a second amendment to the 2008 Plan to increase the shares available under the plan by an additional 245,714 shares, from 161,429 shares to 407,143 shares. The second amendment was approved by our stockholders on June 3, 2010.

Table of Contents

The awards to be granted under the Plan may be incentive stock options eligible for favored treatment under Section 422 of the Internal Revenue code of 1986, as amended from time to time, or non-qualified options that are not eligible for such treatment, or stock of the Company, which may be subject to contingencies or restrictions, as well as grants of stock appreciation rights or grants of shares of common stock. Approximately 155 employees and officers of the Company and our subsidiaries are currently eligible to participate in the Plan.

As of December 31, 2012, there were 284,533 shares of common stock reserved under the Plan for outstanding options and shares of restricted stock. We granted 9,847 shares of restricted stock and options to purchase 82,322 shares under the Plan during 2012, and options to purchase 248,606 shares were outstanding under the Plan as of December 31, 2012.

Option Exercises and Stock Vested During 2012

The following table shows all stock options exercised and the value realized upon exercise, and all stock awards vested and the value realized upon vesting, by our Named Executive Officers during fiscal 2012:

	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$) (1)
David R. Asplund			6,627	111,797
Jeffrey R. Mistarz			2,014	33,976
John O Rourke			2,898	48,889
C. Adam Procell			463	7,811

(1) Calculated using the market value of the shares on the date of vesting

Option Re-Pricing

We have not engaged in any option re-pricings or other modifications to any of our outstanding equity awards during fiscal year 2012.

Table of Contents

PROPOSAL 2

APPROVAL OF THE ISSUANCE OF CONVERSION AND WARRANT SHARES

As described in more detail below under the caption Background, we issued shares of our Series A Preferred Stock and warrants to purchase shares of our common stock in a private placement in September 2013. Our Series A Preferred Stock is convertible into shares of our common stock. As described in more detail below under the caption Need for Stockholder Approval, the NASDAQ Listing Rules require us to obtain stockholder approval of the issuance of common stock upon the conversion of shares of our Series A Preferred Stock and the exercise of our outstanding warrants issued in connection with the sale of our Series A Preferred Stock. This Proposal seeks that approval. As of the date of this Proxy Statement, we have not received any requests for either the conversion of any shares of our Series A Preferred Stock or for the exercise of any of our outstanding warrants issued in connection with the sale of our Series A Preferred Stock.

Background

On September 23, 2013, we entered into a purchase agreement with the investors who held our Subordinated Secured Convertible Pay-In-Kind Notes (the Notes), including Mr. Richard Kiphart, our Chairman and largest individual stockholder, and Mr. Christopher Capps, a member of our Board of Directors. Pursuant to the terms of that agreement, the investors acquired 927,992 shares of our Series A Preferred Stock (the Preferred Shares) at a price per Preferred Share of \$10.00. The purchase price was paid with (a) \$2,500,000 in cash and (b) the exchange of \$6,779,949.84 (principal amount and accrued interest) of the Notes, representing all of the outstanding Notes. With the exchange of the Notes, the shares of our common stock previously issuable upon conversion of Notes have been eliminated in favor of shares issuable upon conversion of the Preferred Shares.

The Preferred Shares are entitled to an accruing dividend of 12.5% of their original issue price per year (subject to adjustment for stock splits, combinations and similar recapitalizations), payable semi-annually in arrears. Such dividends shall be paid in additional shares of Series A Preferred Stock at the original issue price (subject to adjustment for stock splits, combinations and similar recapitalizations) or, at the sole discretion of the our board of directors, in cash.

The Preferred Shares may be converted, at any time following the approval of such conversion by our common stockholders, at the election of the holder of such share, into shares of our common stock at a conversion price equal to \$3.78 per share (the Conversion Price). The Conversion Price shall be proportionately adjusted for stock splits, combinations and similar recapitalizations, and, subject to a floor of \$3.50, shall be adjusted for future issuance of common stock (excluding certain issuances) at a price per share less than the Conversion Price on a broad based, weighted average basis. We can require conversion of the notes if the weighted average price for the its common stock is at least two hundred percent (200%) of the Conversion Price for at least 20 trading days during a 30 trading day period ending within 5 trading days prior to our sending a notice of forced conversion to the holders of the Notes.

We may redeem all or a portion of the Preferred Shares at our option at any time unless prohibited by Delaware law governing distributions to stockholders. The redemption price for each Preferred Share shall be its original issue price (subject to adjustment for stock splits, combinations and similar recapitalizations) plus any accrued but unpaid dividends multiplied by a factor based on the date of the notice of such redemption is sent to holders of the Preferred Shares. If such notice is sent before the first anniversary of the issuance of the Preferred Shares, the factor shall be 103%, if thereafter but before the second such anniversary, the factor shall be 102%, if thereafter but before the third such anniversary, the factor shall be 101% and thereafter, the facto shall be 100%.

Table of Contents

In connection with the agreement with the Investors, we issued Investors purchasing preferred shares for cash warrants to purchase 264,551 shares of our common stock at \$3.78 per share (the Warrants). These warrants expire on the 5th anniversary of their issuance and contain a cashless-exercise option. The Warrants may not be exercised until our common stockholders approve the exercise of the Warrants.

The terms of purchase agreement prohibit any holder of Preferred Shares or Warrants (Holder) from converting Preferred Shares into common stock or exercising any Warrants unless we have obtained the prior approval of our stockholders for the issuance of shares upon conversion of the Preferred Shares and on the exercise of the Warrants. The purchase agreement requires that we seek such stockholder approval. This Proposal is being submitted in order to obtain such stockholder approval.

Need for Stockholder Approval

Our common stock is listed on the NASDAQ Capital Market and as such is subject to the NASDAQ Listing Rules. The issuance of common stock pursuant to the conversion of our Preferred Shares or the exercise of the Warrants is governed by Listing Rules 5635(c) and 5635(d). Listing Rule 5635(c) relates to certain transactions whereby our common stock may be issued for less than market value. Listing Rule 5635(d) relates to certain transactions whereby our common stock may be issued for less the greater of than market value or book value. Because the book value of our common stock was less than the market value on September 23, 2013, market value is the applicable standard for the conversion of the Preferred Shares and the exercise of the Warrants. For the purposes of the applicable Listing Rules, market value means the last closing consolidated bid price prior to entering the binding agreement for a transaction.

Although the conversion price of the Preferred Shares and the exercise price of the Warrants was equal to the market value of our common stock at the time we entered into the purchase agreement, because the investors who purchased Preferred Shares for cash received Warrants in addition to the Preferred Shares, for the purposes of the NASDAQ Listing Rules, the issuance of our common stock upon conversion of the Preferred Shares of the exercise of the Warrants will be deemed to be at less than market value.

Listing Rule 5635(c) requires us to obtain stockholder approval of prior to the issuance of our common stock in any equity compensation plan, subject to certain exceptions, none of which apply here. Any transaction in which officers, directors, employees, or consultants receive common stock for less than market value is considered an equity compensation plan. Because Mr. Kiphart is one of our directors, the sale of the Preferred Stock and Warrants to him is an equity compensation plan, and no common stock may be issued upon the conversion of the Preferred Shares or the exercise of the Warrants issued to him unless we have first received stockholder approval of such issuances.

Listing Rule 5635(d) requires us to obtain stockholder approval of prior to the issuance of our common stock in any private placement of 20% or more of our common stock or of securities convertible into 20% or more of or common stock, at less than the greater of book value or market value. The sale of the Preferred Shares and Warrants constituted such a private placement and, therefore, pursuant to Listing Rule 5635(d), no more common stock than an amount equal to 20% of our outstanding common stock on September 23, 2013 may be issued upon the conversion of the Preferred Shares or the exercise of the Warrants unless we have first received stockholder approval of such issuances.

Table of Contents

To comply with Listing Rules 5635(c) and 5635(d), the terms of purchase agreement prohibit any holder of Preferred Shares or Warrants from converting Preferred Shares into common stock or exercising any Warrants unless we have obtained the prior approval of our stockholders for the issuance of shares upon conversion of the Preferred Shares and on the exercise of the Warrants.

Consequences of Approval or Disapproval of the Issuance of Conversion and Warrant Shares

If Proposal 2 is approved, we will be allowed to issue shares of our common stock upon conversion of the Preferred Shares and the exercise of the Warrants. In the event that stockholders approve this Proposal, each Holder will be able to convert all of its Preferred Shares into, and exercise all its Warrants for, shares of the our common stock, and we will not be required to either (a) issue additional Preferred Shares as dividends or (b) use our then existing cash resources to pay cash dividends. If this Proposal is not approved, the Holders will not be able to convert the Preferred Shares. In such case, Holders who would otherwise be willing to convert their Preferred Shares into conversion shares will not be able to do so. We will instead be required to either (a) issue additional Preferred Shares as dividends or (b) use our then existing cash resources to pay cash dividends. Those obligations would continue indefinitely, unless we chose to redeem the Preferred Shares and had the available cash to do so.

Dilutive Effect

If Proposal 2 is approved, our stockholders immediately prior to the issuance of any shares upon conversion of the Preferred Shares and the exercise of the Warrants could incur dilution in their percentage ownership of our common stock. Excluding any Preferred Shares which may be issued in the future as pay-in-kind dividends on outstanding Preferred Shares, upon the conversion of all currently outstanding Preferred Shares and the Warrants, we would issue 2,719,647 shares of our common stock.

Additional Information

The certificate of designation for the Preferred Shares, the purchase agreement, and the form of Warrant, all of which were executed in connection with the issuance of the Preferred Shares and Warrants, are filed as exhibits to the Company's Current Report on Form 8-K dated September 23, 2013 as filed with the Securities and Exchange Commission on September 23, 2013.

This summary of the terms of the Preferred Shares and Warrants is intended to provide you with certain material information concerning the Preferred Shares and Warrants and the transaction pursuant to which the Preferred Shares and Warrants were issued. You should also review the certificate of designation of the Preferred Shares, the purchase agreement and the form of Warrant, which have been filed with the Securities and Exchange Commission, in their entirety. This summary should be read in conjunction with such documents.

The Board of Directors recommends that the stockholders vote

FOR

the approval of the issuance of common stock upon the conversion of shares of our Series A Preferred Stock and the exercise of our outstanding warrants issued in connection with the sale of our Series A Preferred Stock.

Table of Contents

PROPOSAL 3

PROPOSAL TO AMEND OUR 2010

NON-EMPLOYEE DIRECTORS STOCK PLAN

Introduction

Effective April 1, 2000, we adopted a stock option plan for all non-employee directors that was separate and distinct from our employee incentive plans. The plan was amended on July 11, 2006 to provide that eligible directors receive an initial option grant upon being appointed to our Board of Directors to purchase 2,041 shares of our common stock, and a grant of options to purchase an additional 1,020 shares on the first day of January beginning on the second January following the date the director became an eligible director.

The Directors Plan was replaced in June 2010 by the 2010 Non-Employee Directors' Stock Plan. The 2010 Directors' Plan provides for the granting of up to 35,715 shares of stock to Non-Employee directors to compensate them for their services to the Company. The use of the shares available under the 2010 Directors' Plan is administered by the Company's Board of Directors, which has delegated its powers to the Compensation Committee of the Board of Directors. The Compensation Committee has determined under the 2010 Directors' Plan to grant non-employee directors restricted shares of Company stock with the following market values on the date of grant:

	Market Value of Grant	
For Board Service:		
Each director upon initial election:	\$	40,000
Annual grant to each director:		