ELECTRIC CITY CORP
Form 10-Q
November 10, 2005

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

Form 10-Q

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

For the quarterly period ended September 30, 2005

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

For the transition period from _________ to _________

Commission file number 001-16265

ELECTRIC CITY CORP.
(Exact name of small business issuer as specified in its charter)

Delaware	**36-4197337**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1280 Landmeier Road, Elk Grove Village, Illinois 60007-2410
(Address of principal executive offices)
(847) 437-1666
(Issuer s telephone number)
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes þ No o

Indicate by check mark whether the registrant is an accelerated filer (as defined by Rule 12b-2 of the Exchange Act) Yes o No þ

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

Yes o No þ

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

ELECTRIC CITY CORP.
FORM 10-Q
For The Quarter Ended September 30, 2005
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PART I FINANCIAL INFORMATION

ITEM 1. Financial Statements

ELECTRIC CITY CORP.
CONDENSED CONSOLIDATED BALANCE SHEET

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

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ELECTRIC CITY CORP.
CONDENSED CONSOLIDATED BALANCE SHEET

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

(1)

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

See accompanying notes to condensed consolidated financial statements

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

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

See accompanying notes to condensed consolidated financial statements

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

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

See accompanying notes to condensed consolidated financial statements

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

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

See accompanying notes to condensed consolidated financial statements. .

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

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

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

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Nine months ended September 30	**2005**	**2004**
Supplemental Disclosures of Noncash Investing and Financing Activities		
Conversion of convertible debt to common stock	$	$ 270,863
Accrued interest satisfied through the issuance of common stock		4,736

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

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

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

See accompanying notes to condensed consolidated financial statements

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Electric City Corp.
Notes to Financial Statements

Note 1 Basis of Presentation

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

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

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

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

Note 2 Stock-based Compensation

At September 30, 2005, the Company had a stock-based compensation plan, which is more fully described in Note 17 in the Company s 2004 Annual Report on Form 10-K as filed on March 31, 2005. The Company applies the recognition and intrinsic value measurement principles of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations in accounting for those plans. No stock-based compensation expense was reflected in the net loss for the three month or nine month periods ended September 30, 2005 or September 30, 2004, as all options granted under the plan had an exercise price equal to or greater than the market value of the underlying common stock on the date of the grant. The following table illustrates the effect on the net loss and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation, to stock-based compensation:

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

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

When the Company adopts FAS 123 (R), currently scheduled for the first quarter of 2006, it will include the expense associated with options issued to employees in its Condensed Consolidated Statements of Operations. The Company has not yet completed its assessment of which valuation model or transition option it will use once it adopts FAS 123 (R).

Note 3 Revenue Recognition

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

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

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

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

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

Note 4 Recent Accounting Pronouncements

None to report in the current quarter.

Note 5 Acquisition of Maximum Performance Group, Inc.

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

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