CANACCORD Genuity

The Green Scene

Eric Prouty
1.617.371.3729
eprouty@canaccordgenuity.com

Eric Glover, CFA
1.415.229.0669
eglover@canaccordgenuity.com

Inside

Sustainability

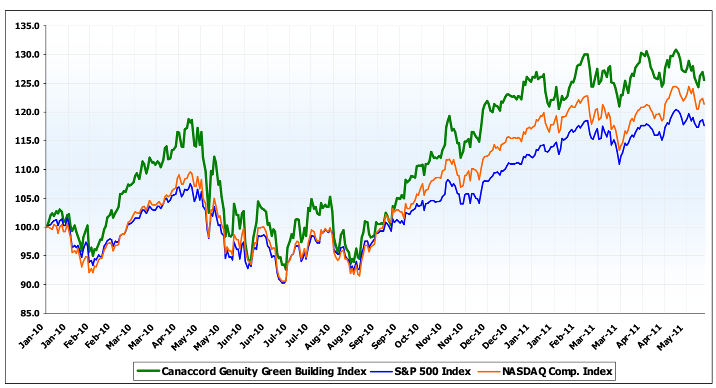
Green Building Semimonthly

Disappointing data

Although recent economic reports haven't been alarmingly negative, disappointing news is increasing, in our view. For example, residential home construction in April fell 10.6% from year-ago levels (to an annualized rate of 523,000) and was below consensus expectations. In addition, the American Institute of Architects architecture billings index declined substantially in April (see page 3 for details), reversing several months of positive readings. Finally, the index of leading economic indicators fell in April for the first time in ten months. While the surprise drop is not expected to represent the start of a downward trend, it is a cause for concern in light of other economic data, in our view.

Over the past two weeks, our Green Building Index fell 1.1% vs. a 0.5% loss for the S&P 500 Index. Since the start of the year, our Green Building Index is up 2.7% vs. +6.0% for the S&P 500 Index and +5.7% for the Nasdaq Comp. Index.

Figure 1: Canaccord Genuity Green Building Index



Past 2 weeks Top 5 performers	% change	Past 2 weeks Top 5 laggards	% change
Orion Energy Systems, Inc	27.6%	Headwaters Inc.	-24.2%
Ecology & Environment, Inc.	15.2%	American DG Energy, Inc.	-10.5%
Kingspan Group plc	9.8%	Apogee Enterprises, Inc.	-6.6%
Cree Inc.	6.7%	Thomas Properties Group Inc.	-6.5%
LSB Industries Inc.	6.0%	NCI Building Systems Inc.	-5.7%

Source: Capital IQ, Canaccord Genuity. Past performance does not predict future results.

23 May 2011

GREEN BUILDING BLOCKS

This week we take a brief look at the upcoming introduction of a new ISO standard for energy management in commercial buildings, known as ISO 50001. We also review the American Institute of Architects' architecture billings data for the month of April.

New ISO standard coming for energy management in commercial buildings

The International Organization for Standardization (which goes by the acronym ISO) is the world's largest developer and publisher of international standards. This non-governmental organization is responsible for developing key standards in almost every economic sector and claims to "only develop standards for which there is a clear market requirement." ISO standards are highly influential and often widely adopted, as evidenced by the success of ISO 9001 which has more than one million certifications and has become the global benchmark for quality management. That's why we took note that ISO soon plans to introduce ISO 50001, an international standard for energy management.

According to ISO, ISO 50001 "will establish a framework for industrial plants, commercial facilities or entire organizations to manage energy." The standard is designed to be compatible with existing ISO standards, including 9001 (quality management) and 14001 (environmental management). Notably, ISO estimates that ISO 50001 could influence 60% of the world's energy use and is being designed to provide the following benefits:

- A framework for integrating energy efficiency into management practices
- Making better use of energy-consuming assets
- Benchmarking, measuring, documenting, and reporting energy intensity improvements and their projected impact on reductions in greenhouse gas emissions
- Transparency and communication on the management of energy resources
- Energy management best practices and good energy management behaviors
- Evaluating and prioritizing the implementation of new energy-efficient technologies
- A framework for promoting energy efficiency throughout the supply chain
- Energy management improvements in the context of GHG emission reduction projects

A receptive market for ISO 50001

According to a recent webinar sponsored by GreenBiz.com, there has been a generally positive market response to the proposed ISO 50001 standard. Companies like the idea of an international energy management standard, as it will: 1) enable benchmarking; 2) provide a systematic roadmap to achieve energy savings; 3) help in the documentation of energy savings for legislative requirements; and 4) further help drive supply chain initiatives. There is also support for ISO 50001 because it is based on measurement and verification, which should enable companies help conform to their own stated energy policies. We note that energy is the third-largest expense for businesses, representing an average of 19% of total expenses (employees and real estate are the two largest expense categories), and accounts for 75% of a company's carbon footprint.

We anticipate widespread adoption of ISO 50001

Like other ISO standards, ISO 50001 will be a purely voluntary system. But as we have seen with the ISO 9001 and ISO 14001 standards, to name two, these voluntary standards can quickly become de facto requirements as rapid uptake by competitors drives non-participating companies to adopt them as well. It should be noted that ISO 50001 will not establish absolute requirements for energy performance beyond the commitments in the energy policy of the company/organization and its obligation to comply with relevant legislation. As a result, “two organizations carrying out similar operations but having different energy performance can both conform to [ISO 50001] requirements,” according to language in the draft version of the standard. As for certification, it is expected that companies/organizations that adopt ISO 50001 would re-certify themselves to the energy management standard every three years.

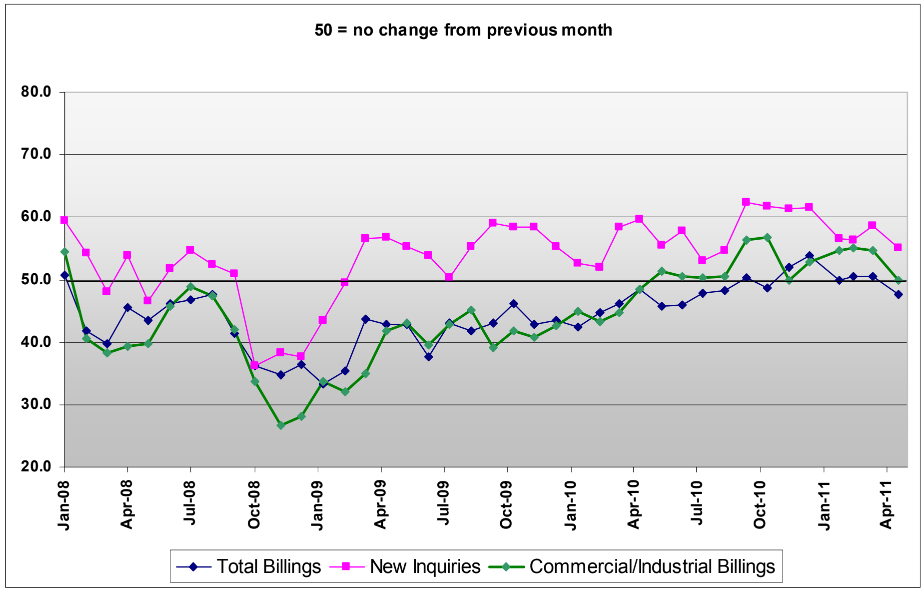
Concluding thoughts

We view the forthcoming ISO 50001 standard as a positive development as it is likely to further accelerate adoption of energy efficiency practices and drive companies/organizations to continuously improve their energy performance. ISO says that there is significant market demand for a global energy management standard, suggesting that ISO 50001 will be adopted relatively quickly and widely among companies/organizations. We see this is as particularly good news for companies that provide energy efficiency services, including Ameresco (AMRC: NYSE: $14.99 | BUY), Johnson Controls (JCI: NYSE: $38.35 | Not Rated), Lime Energy (LIME: NASDAQ: $4.57 | SPECULATIVE BUY), and Orion Energy (OESX: AMEX: $4.04 | BUY).

Setback for Architecture Billings Index in April

- **Architecture billings in April fall below 50.0 level**. The American Institute of Architects released its monthly architecture billings survey results for the month of April. Total billings fell to 47.6, a substantial decline from 50.5 in March. (A reading above 50 indicates an increase in month/month billings and a reading below 50 indicates a decrease.) The AIA’s architecture billings index (ABI) is a closely watched metric, as billings growth for architecture services generally leads to construction spending growth 9-12 months forward. April’s disappointing level of 47.6 is the first month since October 2010 that the index has fallen below the key threshold of 50.0.
- **Commercial and industrial billings also fall below 50.0.** The AIA’s sub-index for commercial and industrial billings was 49.9 in April, falling below 50.0 for the first time since November 2010. April was only the second month in the past year that billings were below the 50.0 level. While the dip below 50 is disappointing, we wouldn’t read too much into it at this point, as it’s not clear that this is the start of a trend. In fact, our conversations with industry participants continue to indicate that activity within the nonresidential construction is slowly improving, not getting worse.

Figure 2: Architecture Billings Index



Source: AIA

- **Project inquires index also falls, but still well above 50.0**. The AIA's sub-index that tracks inquiries for new architecture projects declined to 55.0, from 58.7 in March. (Any reading above 50.0 indicates an increase in month/month inquiries.) Despite the drop in April, the AIA said that project inquires were "still at a healthy level."

- **AIA cites lack of project financing as a key impediment to new construction**. Discussing the April ABI numbers, AIA's chief economist Kermit Baker pointed to a number of factors likely responsible for the decline: the completion of most construction projects funded by the federal stimulus program; nervousness around the potential for a government shutdown; and severe weather in the southeast US. However, "the majority of [architecture] firms are reporting at least one stalled project in-house because of the continued difficulty in obtaining financing. That issue continues to be the main roadblock to recovery."

- **Mixed data points on CRE loan financing**. While AIA said that firms are reporting trouble obtaining financing, we note that the Federal Reserve recently reported that standards for commercial real estate (CRE) loans by some large banks may actually be easing somewhat. In addition, recent news reports indicate that major banks like JP Morgan, Wells Fargo and Deutsche Bank have increased their CRE loans, though those increases may have been offset to some extent by other banks (e.g., BofA, KeyCorp, SunTrust) shedding such assets. In general, it appears that obtaining financing remains challenging, but overall conditions do appear to be improving, in our view.

Concluding thoughts

While the April ABI data was an unexpected setback following several months of growth in architecture billings for commercial and industrial projects, our research and conversations with industry participants continues to suggest industry conditions are holding steady or slowly improving. From here, we would expect a choppy recovery as industry data points remain mixed.

We reiterate our BUY rating on NCI Building Systems. As one of the nation's leading manufacturers of engineered metal buildings, NCI Building Systems (NCS: NYSE: $11.12 | BUY/Best Idea) is likely to benefit first from higher nonresidential construction spending. Typically, lower-rise buildings are the first to be built at the start of a new upcycle. We remain comfortable with our forecast for 10% sequential revenue growth (to $210M) in the firm's April quarter. In our view, we do not believe that the April decline in the ABI commercial and industrial sub-index is representative of the current trends NCS is experiencing.

We still like Apogee Enterprises, but the company will benefit later in the cycle. Apogee Enterprises (APOG: NASDAQ: $13.01 | BUY) is a later-cycle new construction play, as the company's products are used extensively in complex, large-scale projects which typically start to be built a year or so into a well-defined upturn. Thus, Apogee's business won't "turn" until well into 2012, in our view.

The table below provides our current recommendations and estimates on all our companies under coverage.

Figure 3: Coverage overview

May 20, 2011	Share Information					Revenue		EBITDA				EPS				Per Share	
($ in millions, except per share data)	Ticker	Price	Target Price	Market Cap.	Rating	CY 2011E	CY 2012E	CY 2011E	EV/ EBITDA	CY 2012E	EV/ EBITDA	CY 2011E	P/E	CY 2012E	P/E	Net Cash/ (Debt)	Tangible Book
Recycling and Enviro Solutions																	
Astec Industries, Inc.	ASTE	$35.85	$40	$820	HOLD	$950	$1,060	88	8.4x	107	6.9x	$2.00	17.9x	$2.50	14.3x	$3.51	$21.34
Casella Waste Systems Inc.	CWST	$6.30	$11	$164	BUY	$467	$495	102	6.0x	122	5.0x	($0.63)	N/A	$0.05	N/A	($17.22)	($2.27)
GrafTech International Ltd.	GTI	$21.03	$24	$3,049	BUY	$1,331	$1,560	297	11.2x	378	8.8x	$1.03	20.4x	$1.38	15.2x	($1.99)	$5.35
Harsco Corporation	HSC	$32.89	$40	$2,658	BUY	$3,234	$3,365	509	6.8x	573	6.1x	$1.32	24.9x	$1.92	17.1x	($10.12)	$8.39
Horsehead Holding Corp.	ZINC	$12.69	$20	$560	BUY	$428	$499	92	4.8x	122	3.7x	$1.00	12.7x	$1.40	9.1x	$2.56	$8.86
Kadant Inc.	KAI	$29.03	$36	$360	BUY	$305	$320	48	6.7x	50	6.4x	$2.15	13.5x	$2.40	12.1x	$3.06	$7.42
LKQ Corp.	LKQX	$26.25	$25	$3,883	HOLD	$3,042	$3,285	409	10.7x	494	8.9x	$1.39	18.9x	$1.75	15.0x	($3.35)	$2.43
Metalico Inc.	MEA	$5.69	$10	$269	BUY	$678	$745	76	5.3x	85	4.7x	$0.64	8.9x	$0.75	7.6x	($2.78)	$1.40
Schnitzer Steel Industries Inc.	SCHN	$56.34	$80	$1,572	BUY	$3,233	$3,680	267	6.9x	310	5.9x	$4.63	12.2x	$5.65	10.0x	($9.77)	$17.92
Sims Metal Management *	ASX:SGM	$17.48	A$24	A$3,583	BUY	A$9,186	A$10,207	A521	7.6x	A611	6.5x	A$1.15	15.2x	A$1.39	12.6x	A$(1.86)	A$8.51
US Ecology, Inc.	ECOL	$16.37	$18	$298	HOLD	$143	$153	43	8.2x	48	7.3x	$0.85	19.3x	$1.00	16.4x	($2.85)	$1.70
Green Building																	
Ameresco, Inc.	AMRC	$14.99	$18	$687	BUY	$716	$795	73	12.3x	87	10.2x	$0.82	18.3x	$0.90	16.7x	($4.47)	$4.00
Apogee Enterprises, Inc.	APOG	$13.01	$17	$360	BUY	$613	$705	23	14.0x	55	5.8x	($0.27)	N/A	$0.44	29.6x	$1.42	$8.77
ICF International Inc.	ICFI	$25.00	$30	$494	BUY	$850	$925	85	6.7x	96	5.9x	$1.70	14.7x	$2.00	12.5x	($3.73)	$0.58
Interface Inc.	IFSI.A	$19.46	$20	$1,269	HOLD	$1,065	$1,155	149	9.6x	178	8.1x	$0.85	22.9x	$1.15	16.9x	($2.58)	$2.96
Jones Lang Lasalle Inc.	JLL	$96.88	$120	$4,298	BUY	$3,383	$3,672	396	12.1x	476	10.1x	$4.80	20.2x	$6.00	16.1x	($11.54)	$3.16
Lime Energy Co.	LIME	$4.57	$8	$109	SPEC. BUY	$128	$145	1	80.1x	6	16.7x	($0.05)	N/A	$0.15	30.5x	$0.40	$2.17
LSB Industries Inc.	LXU	$46.03	$50	$1,077	HOLD	$754	$845	146	7.2x	168	6.3x	$3.20	14.4x	$3.63	12.7x	$0.70	$9.58
NCI Building Systems Inc.	NCS	$11.12	$17.50	$203	BUY	$950	$1,145	48	15.9x	122	6.2x	($1.63)	N/A	$0.63	17.7x	($1.10)	$3.33
Orion Energy Systems, Inc	OESX	$4.04	$5	$94	BUY	$108	$124	12	7.5x	18	4.9x	$0.16	25.3x	$0.27	15.0x	$0.31	$3.83
Real Goods Solar, Inc.	RSOL	$2.52	$5	$46	SPEC. BUY	$90	$105	5	6.4x	9	3.9x	$0.15	16.8x	$0.25	10.1x	$0.71	$1.71
Trex Co. Inc.	TREX	$28.68	$28	$482	HOLD	$334	$360	66	8.5x	76	7.3x	$1.72	16.7x	$1.60	17.9x	($4.32)	$6.02
Advanced Enabling Materials																	
KMG Chemicals Inc.	KMGB	$19.22	$22	$220	BUY	$262	$275	39	6.9x	49	5.5x	$1.42	13.5x	$1.98	9.7x	($4.17)	$5.31

Source: Capital IQ and Canaccord Genuity / * Note that ASX:SGM information is in Australian dollars

Source: Capital IQ and Canaccord Genuity estimates. Information on the methodologies used to derive our target prices, and the risks that could impede achievement of these targets, is available upon request. Disclosure information for all of Canaccord Genuity research coverage can be found at http://www.canaccordgenuity.com/research/Disclosure.htm.

GREEN BUILDING BUZZ

Below we highlight some recent developments and news stories from the commercial construction, green building, and energy efficiency markets that we found interesting:

- **Maryland first state to approve the International Green Construction Code**. We first discussed the IGCC back in April 2010 (if you'd like to read what we had to say, please email us). At the time it was unveiled, Building Design & Construction called the IGCC "perhaps the most significant development in the buildings industry in the past ten years." Now, more than a year later, Maryland has become the first state in the country to adopt the IGCC for new construction projects – specifically all commercial buildings as well as residential properties more than three stories high. We note that other municipalities in the US have adopted the IGCC as an option, but Maryland is the first state to mandate its use, effective March 2012.
- **Good news, bad news on residential energy consumption trends**. Earlier this month, the US Energy Information Administration released data showing that US homes spend far less on home heating than they did in the 1970s, but overall residential home energy consumption hasn't changed much since 1978. In fact, total energy use in homes in 2005 was 10.55 quadrillion BTU, virtually unchanged from 10.58 quadrillion BTU in 1978. Despite major improvements in the energy efficiency of home appliances, increased ownership of all types of appliances, a surge in electronics usage, and the increase in the number of households has kept overall energy consumption flat.
- **Johnson Controls releases Energy Efficiency Indicator survey results for Europe**. On May 11, Johnson Controls reported results for its second annual EEI survey for Europe. "The survey reinforces the growing trend of 'greening buildings seen in Europe in recent years," according to the press release. Surveying 857 public-sector leaders responsible for energy-related decisions in nonresidential buildings in the UK, Germany, France, Spain, Poland, and Italy, JCI found that respondents ranked energy cost savings as the No. 1 influence on energy efficiency decisions in both 2010 and 2011. Government and utility incentives ranked No. 2, up from No. 6 in 2010. Additional results from the survey can be found here.
- **Green building growing rapidly for Turner Construction.** As one of the largest construction firms in the country, Turner Construction is evidently also one of the greenest. According to a report in GreenBiz.com, green building represented 46% of sales for Turner in 2010, up from 17% in 2005. The firm completed $4.2 billion in green work in 2010, up from $1.3 billion in 2006. In total, "Turner has completed almost 200 LEED-certified projects valued at $10.5 billion and the company has another 230 LEED-registered projects valued at $16.5 billion in progress," according to the report.
- **Something to think about: Renewables could provide almost 80% of global energy by 2050.** The UN Intergovernmental Panel on Climate Change report, released May 9, estimates that renewable energy sources could supply 77% of global energy demand by 2050 "if backed by the right enabling public policies." To arrive at this estimate, six major renewable energy technologies were considered: bioenergy, direct solar energy,

geothermal energy, hydropower, ocean energy, and wind energy. "While the report concludes that the proportion of renewable energy will likely increase even without enabling policies, past experience has shown the largest increases come with concerted policy efforts," according to the UN press release summarizing the report. Interestingly, the IPCC projects that bioenergy and wind power will become the dominant forms of renewable energy by 2050.

RECENT RESEARCH

Over the past two weeks, we published notes on Lime Energy (LIME: NASDAQ: $4.57 | SPECULATIVE BUY), LSB Industries (LXU: NYSE: $46.03 | HOLD), Orion Energy Systems (OESX: AMEX: $4.04 | BUY), and Real Goods Solar (RSOL: NASDAQ: $2.52 | SPECULATIVE BUY). These notes are reprinted here.

LIME: GOOD START TO THE YEAR; MAINTAIN SPECULATIVE BUY, $8 TARGET

Investment recommendation

Higher-than-expected Q1 revenue coupled with a big sequential increase in backlog provide a strong start to 2011 and increase our confidence in our full-year revenue estimate. While we see 2011 as a transition year in which revenues scale to accommodate previous investments, we look for 2012 to mark Lime's "breakout" year, highlighted by full-year profitability in both adj. EBITDA and EPS. We maintain our SPECULATIVE BUY rating and $8 target price.

Investment highlights

- Q1 revenue was $19M (+61% y/y), exceeding our estimate of $16.5M and the consensus of $16.7M. Diluted EPS were $(0.15), in line with our estimate but slightly below consensus of $(0.13). We note that adj. EBITDA of ($3.1M) was more or less in line with our forecast of ($3M).
- Backlog improved strongly to $126M, up from $90M in Q4/10. Even though backlog increased significantly, Lime opted to remain conservative, in our view, and reiterated its 2011 revenue guidance of $122-$128M. The company indicated that about half of the existing backlog would cover projected revenue this year.
- A significant area of growth for Lime currently is utility demand-side management programs. This specific sector recorded >200% y/y revenue growth in Q1 and management predicted this business would remain robust.
- While Lime's work for utility EE programs will help to drive future revenue growth, these programs require higher levels of SG&A expenses. In fact, Lime guided for SG&A expenses to grow 12-15% y/y in 2011, which is higher than our prior projected y/y growth rate of approximately 9%.
- Given Q1 revenue upside and the strong sequential increase in backlog, we increase our 2011 revenue estimate to $128M, up from $119.5M previously. Our revised revenue estimate is now at the upper end of management's 2011 revenue guidance range of $122-$128M, which we believe is on the conservative side as we noted earlier.
- While we increase our 2011 revenue estimate, we also ramp up our SG&A expense assumption given expected growth in utility EE contracts. Our revised SG&A expense estimate is now $29.9M, up from $28.1M previously.

- In summary, our increase in projected 2011 revenue is basically offset by higher projected SG&A, causing little change to estimated adj. EBITDA and EPS. Specifically, we now estimate 2011 adj. EBITDA of $1.2M (up from $1.1M) and maintain our EPS estimate at $(0.05).
- We make no meaningful changes to our 2012 revenue/adj. EBITDA/EPS estimates of $145M/$6M/$0.15.
- Lime's Q1 results speak to the ongoing strength within the EE services market, in our view. Based on Lime's commentary, data points from other market participants like Johnson Controls and Ameresco, we expect the EE services market to remain robust throughout 2011.

Valuation

LIME trades at 0.7x EV/2012E sales. Our $8 price target is based on approximately 1.2x EV/2012E sales.

LXU: RAISING ESTIMATES; MAINTAIN HOLD, TARGET TO $50

Investment recommendation

Benefiting from production growth at the Pryor facility as well as favorable market trends, LSB's chemical business is driving significant gains in profitability. While we increase our estimates to reflect exceptionally strong performance within the Chemicals business, we consider the shares fairly valued near current levels. We maintain our HOLD rating and up our target to $50 (from $35).

Investment highlights

- Without doubt, these are certainly the "best of times" for LSB's chemicals business. Raw materials input costs remain low while end market selling prices and demand levels remain strong. These dynamics have led to significant margin expansion within this business. Favorable market trends (low grain stock-to-use ratios, high crop prices, high planting levels, etc.) suggest continued positive operating performance, in our view.
- Meanwhile, LSB's climate control business looks set for solid double-digit sales growth this year as Q1 backlogs were up 62% on a y/y basis and total new product orders were up 32% y/y. While nonresidential construction activity remains sluggish, LSB is benefiting from tax incentives for geothermal equipment as well as good demand from the retrofit market, in our view.
- Based on significantly higher margin assumptions within the Chemicals business, we raise our 2011 and 2012 EPS estimates to $3.20 and $3.63, from $2.48 and $3.00, respectively. These new estimates reflect Chemicals segment operating margins over 20% vs. our prior estimate of approximately 14%.

Valuation

LSB trades at 6.2x EV/2012E EBITDA. We increase our target price to $50 (from $35) based on approximately 7x EV/2012E EBITDA. We note that our revised target price is based on a 7x EV/EBITDA multiple vs. 6x previously. We believe the market will continue to assign a higher-than-normal forward historical EV/EBITDA multiple to LXU given the company's improved profitability.

OESX: A BRIGHT OUTLOOK FOR F2012, RAISING ESTIMATES; MAINTAIN BUY, $5 TARGET

Investment recommendation

Strong March quarter results combined with a bullish 2012 outlook indicate that Orion is experiencing a meaningful pickup in demand as customers aggressively seek to reduce their energy costs. We raise our F2012 estimates and maintain our BUY rating.

Investment highlights

- Total FQ4 (Mar.) revenue of $31.6M significantly exceeded our estimate of $22M. Product revenue was $29.6M, up from $16.6M last year, on increased sales of renewable solar systems (+$5.9M), Orion Throughput Agreement contracts (OTAs) sold to a third-party (+$5.5M), and higher sales of lighting systems (+$1.6M).
- Reported EPS were $0.08 were well above our estimate of $0.04. The upside in EPS was driven primarily by higher-than-expected revenues, though we note that gross margins of 29.6% were lower than our 36% estimate. Management cited a higher mix of renewables sales and the impact from OTA contracts sold as reasons that GMs declined both sequentially and on a y/y basis. Specifically, renewables GMs were 22.6% and GMs on OTA sold were 20.4%. The GM on lighting systems was within historical ranges at 34.1%.
- Management guided for F2012 GAAP revenue of $112M-$118M and EPS of $0.18-$0.22 – well above our prior estimates of $85M and $0.15.
- We note that F2012 GAAP revenue is based on new accounting treatment for both OTA contracts as well as solar sales. Specifically, OTA contracts will now be accounted for as capital leases while solar sales will reflect only the engineering/installation service revenue, not the pass-through costs of the panel themselves.
- If we adjust reported F2011 revenue to account for these changes, we can make an apples-to-apples comparison between projected F2012 revenue and F2011 revenue to see what the underlying organic revenue growth is expected to be. Based on our conversations with management, the net result to F2011 revenue would be minimal as reported revenue would increase by about $10M to account for OTA capital lease sales but would then be offset by about $10M to reflect the elimination of pass-through sales of solar panels. Therefore, we think it's safe to say that Orion projects its organic revenue growth rate for F2012 will be approximately 28% as F2011 revenue was still about $90M even after adjusting for any changes to accounting methods.
- Orion indicated that it is still waiting for a definitive opinion from its accountants on whether to treat past OTA contracts as sales-type leases rather than operating leases. In our view, it sounded likely that the company would restate F2010 and F2011 results, which could actually result in higher GAAP revenues and EPS than previously reported, as OTA contracts would be recognized as sales-type leases. Orion stated that

any accounting restatements would have no impact to cash and overall cash flow for the years in question.

Adjusting estimates

- Based on strong F2012 guidance, we raise our F2012 revenue estimate to $112M from $85M previously. We also increase our F2012 EPS estimate to $0.18, from $0.15.
- For F2013, we increase our revenue estimate to $130M, from $110M. We maintain our F2013 EPS estimate of $0.31.

Valuation

OESX trades at 4.2x EV/C2012E EBITDA. Our $5 price target is based on approximately 6.0x EV/C2012E EBITDA. We believe this is a conservative target multiple, as it is below the average multiple of 7.7x within our Green Building/Energy Efficiency coverage universe.

RSOL: Q1 IN LINE, EXPECT IMPROVED LEVERAGE IN SECOND HALF; MAINTAIN SPECULATIVE BUY, $5 TARGET

Investment recommendation

Despite unusually poor weather, Q1 results were in line with our expectations. Improvements in gross profitability are encouraging, though higher opex are likely to mitigate the benefit. We continue to believe that fundamentals within the solar PV market remain healthy and that RSOL is well positioned to capitalize on this growth. Maintain Speculative BUY and $5 target.

Investment highlights

- Q1 revenue was $17.4M, slightly below our $18M estimate given unusually rainy weather in Calif. Despite the poor weather, we note that revenue increased 16% y/y and all of this growth was organic.
- EPS were $0.00, in line with our estimate, as gross margins were higher than expected at 28.9% (vs. our estimate of 26%) but opex increased to 28.5% of revenue (vs. our estimate of 26%).
- Management attributed the strength in GMs to reduced solar panel costs, a positive mix of higher margin residential installation projects, and further optimization of sales and installation practices.
- We tweak our 2011 revenue forecast to $90M, from $92M previously, given a somewhat slower than expected start to the year. However, we maintain our 2011 EPS estimates of $0.15, as we assume that recent gains in GMs can be sustained but will be offset by higher projected opex.
- For Q2 specifically, we lower our revenue estimate to $22M, from $22M, and reduce our EPS estimate to $0.02, from $0.04 previously. While bookings have improved in Q2, the quarter reportedly got off to a slow start, which is likely to keep y/y sales growth in the low double-digit percentage range, in our estimation. Without an acceleration in top line growth in Q2, we anticipate that higher projected gross margins will not be enough to offset the expected increase in SG&A costs.

- As 2011 progresses, we anticipate that RSOL will experience better operating leverage on higher sales even as operating expenses increase as well. We model adj. EBITDA margins for the year at 5.8%, up from 3.7% last year.
- We lower our 2012 revenue estimate to $105M, from $125M previously, as we assume organic revenue growth of 16% y/y vs. our prior estimate of 30% which seems somewhat aggressive given current growth trends.
- Despite the reduction to our 2012 revenue forecast, we maintain our EPS estimate of $0.25 on higher gross margin assumptions. We now model 2012 GMs of 29.9% vs. 26.4% previously.

Valuation

RSOL trades at 3.7x EV/2012E EBITDA. Our $5 price target is based on 9x EV/2012E EBITDA.

Figure 4: Lime Energy income statement

($ in thousands, except per share)	FY 2009	Fiscal Year 2010 Q1 Mar	Q2 Jun	Q3 Sep	Q4 Dec	FY 2010
Revenue	$ 70,802	$ 11,813	$ 17,508	$ 28,077	$ 38,320	$ 95,718
% change (Q/Q)		-42%	48%	60%	36%	
% change (Y/Y)	29%	-14%	11%	34%	89%	35%
Cost of sales	57,192	9,953	13,319	22,100	29,285	74,657
Gross profit	13,610	1,860	4,189	5,977	9,035	21,061
Gross Margin %	19.2%	15.7%	23.9%	21.3%	23.6%	22.0%
SG&A	23,940	6,433	6,094	6,261	7,095	25,883
% of total revenue	33.8%	54.5%	34.8%	22.3%	18.5%	27.0%
Amortization of intangibles	1,221	163	163	147	116	589
% of total revenue	1.7%	1.4%	0.9%	0.5%	0.3%	0.6%
ADJ EBITDA	(8,361)	(4,080)	(1,411)	182	2,318	(2,991)
EBITDA Margin %	-11.8%	-34.5%	-8.1%	0.6%	6.0%	-3.1%
Operating Income	(11,551)	(4,736)	(2,068)	(431)	1,824	(5,411)
Operating Margin %	-16.3%	-40.1%	-11.8%	-1.5%	4.8%	-5.7%
Interest, net	(3,469)	40	40	49	43	172
Pretax Income	(15,020)	(4,696)	(2,028)	(382)	1,867	(5,239)
Income Taxes (benefit)	(1,034)	0	0	0	0	0
Net Income	(13,986)	(4,696)	(2,028)	(382)	1,867	(5,239)
Preferred stock dividends	(1,499)	0	0	0	0	0
Net Inc (Loss) avail. to comn	(15,485)	(4,696)	(2,028)	(382)	1,867	(5,239)
EPS	$ (1.06)	$ (0.20)	$ (0.09)	$ (0.02)	$ 0.08	$ (0.22)
Average shares	15,887	23,592	23,609	23,640	23,693	23,634
Gross margin	19.2%	15.7%	23.9%	21.3%	23.6%	22.0%
EBITDA margin	-11.8%	-34.5%	-8.1%	0.6%	6.0%	-3.1%
Operating margin	-16.3%	-40.1%	-11.8%	-1.5%	4.8%	-5.7%
Effective tax rate	6.9%	0.0%	0.0%	0.0%	0.0%	0.0%
Net margin	-19.8%	-39.8%	-11.6%	-1.4%	4.9%	-5.5%

($ in thousands, except per share)	Fiscal Year 2011E Q1A Mar	Q2E Jun	Q3E Sep	Q4E Dec	FY 2011
Revenue	$ 18,980	$ 25,000	$ 37,000	$ 47,000	$ 127,980
% change (Q/Q)	-50%	32%	48%	27%	
% change (Y/Y)	61%	43%	32%	23%	34%
Cost of sales	15,366	19,750	28,398	35,250	98,764
Gross profit	3,614	5,250	8,603	11,750	29,217
Gross Margin %	19.0%	21.0%	23.3%	25.0%	22.8%
SG&A	7,173	7,300	7,400	8,000	29,873
% of total revenue	37.8%	29.2%	20.0%	17.0%	23.3%
Amortization of intangibles	153	150	150	150	603
% of total revenue	0.8%	0.6%	0.4%	0.3%	0.5%
ADJ EBITDA	(3,087)	(1,575)	1,678	4,225	1,241
EBITDA Margin %	-16.3%	-6.3%	4.5%	9.0%	1.0%
Operating Income	(3,712)	(2,200)	1,053	3,600	(1,260)
Operating Margin %	-19.6%	-8.8%	2.8%	7.7%	-1.0%
Interest, net	30	0	0	0	30
Pretax Income	(3,682)	(2,200)	1,053	3,600	(1,230)
Income Taxes (benefit)	0				0
Net Income	(3,682)	(2,200)	1,053	3,600	(1,230)
Preferred stock dividends	0	0	0	0	0
Net Inc (Loss) avail. to comn	(3,682)	(2,200)	1,053	3,600	(1,230)
EPS	$ (0.15)	$ (0.09)	$ 0.04	$ 0.15	$ (0.05)
Average shares	23,799	23,900	23,950	24,000	23,912
Gross margin	19.0%	21.0%	23.3%	25.0%	22.8%
EBITDA margin	-16.3%	-6.3%	4.5%	9.0%	1.0%
Operating margin	-19.6%	-8.8%	2.8%	7.7%	-1.0%
Effective tax rate	0.0%	0.0%	0.0%	0.0%	0.0%
Net margin	-19.4%	-8.8%	2.8%	7.7%	-1.0%

($ in thousands, except per share)	Fiscal Year 2012E Q1E Mar	Q2E Jun	Q3E Sep	Q4E Dec	FY 2012
Revenue	$ 20,000	$ 28,000	$ 42,000	$ 55,000	$ 145,000
% change (Q/Q)	-57%	40%	50%	31%	
% change (Y/Y)	5%	12%	14%	17%	13%
Cost of sales	16,000	21,490	31,920	41,250	110,660
Gross profit	4,000	6,510	10,080	13,750	34,340
Gross Margin %	20.0%	23.3%	24.0%	25.0%	23.7%
SG&A	7,200	7,300	7,500	8,200	30,200
% of total revenue	36.0%	26.1%	17.9%	14.9%	20.8%
Amortization of intangibles	150	150	150	150	600
% of total revenue	0.8%	0.5%	0.4%	0.3%	0.4%
ADJ EBITDA	(2,694)	(282)	3,041	5,895	5,960
EBITDA Margin %	-13.5%	-1.0%	7.2%	10.7%	4.1%
Operating Income	(3,350)	(940)	2,430	5,400	3,540
Operating Margin %	-16.8%	-3.4%	5.8%	9.8%	2.4%
Interest, net	0	0	0	0	0
Pretax Income	(3,350)	(940)	2,430	5,400	3,540
Income Taxes (benefit)					0
Net Income	(3,350)	(940)	2,430	5,400	3,540
Preferred stock dividends	0	0	0	0	0
Net Inc (Loss) avail. to comn	(3,350)	(940)	2,430	5,400	3,540
EPS	$ (0.14)	$ (0.04)	$ 0.10	$ 0.22	$ 0.15
Average shares	24,050	24,100	24,150	24,200	24,125
Gross margin	20.0%	23.3%	24.0%	25.0%	23.7%
EBITDA margin	-13.5%	-1.0%	7.2%	10.7%	4.1%
Operating margin	-16.8%	-3.4%	5.8%	9.8%	2.4%
Effective tax rate	0.0%	0.0%	0.0%	0.0%	0.0%
Net margin	-16.8%	-3.4%	5.8%	9.8%	2.4%

Company Stats as of 3/31/11

Cash/investments	$ 7,877	Total debt	$ 495
Cash per share	$ 0.33	Total Debt/EBITDA	0.4x
DSOs	136	Debt/Equity	0.8%

Eric A. Prouty (617) 371-3729
Eric Glover, CFA (415) 229-0669
Canaccord Genuity

Source: Company reports, Canaccord Genuity estimates
5/18/2011

Calendar year data

Year	Revenue	Adj EBITDA	EPS	Y/Y Change
2010	$ 95,718	$ (2,991)	$ (0.22)	
2011E	$ 127,980	$ 1,241	$ (0.05)	
2012E	$ 145,000	$ 5,960	$ 0.15	

Source: Company reports and Canaccord Genuity estimates

Figure 5: LSB Industries income statement

($ in thousands, except per share)	FY 2009	Fiscal Year 2010A Q1A Mar	Q2A Jun	Q3A Sep	Q4A Dec	FY 2010	Fiscal Year 2011E Q1A Mar	Q2E Jun	Q3E Sep	Q4E Dec	FY 2011	Fiscal Year 2012E Q1E Mar	Q2E Jun	Q3E Sep	Q4E Dec	FY 2012
Net Revenue	$ 531,838	$ 130,410	$ 168,392	$ 138,948	$ 172,155	$ 609,905	$ 177,493	$ 198,500	$ 186,500	$ 191,500	$ 753,993	$ 198,700	$ 222,500	$ 211,500	$ 212,500	$ 845,200
% change (Q/Q)		*13%*	*29%*	*-17%*	*24%*		*3%*	*12%*	*-6%*	*3%*		*4%*	*12%*	*-5%*	*0%*	
% change (Y/Y)	*-29%*	*-13%*	*22%*	*9%*	*49%*	*15%*	*36%*	*18%*	*34%*	*11%*	*24%*	*12%*	*12%*	*13%*	*11%*	*12%*
Total Cost of Sales	394,424	102,144	133,244	109,509	126,383	471,280	123,639	137,759	143,605	139,795	544,798	143,064	154,193	158,625	153,000	608,882
Total Gross Profit	137,414	28,266	35,148	29,439	45,772	138,625	53,854	60,741	42,895	51,705	209,195	55,636	68,308	52,875	59,500	236,319
Gross Margin %	*25.8%*	*21.7%*	*20.9%*	*21.2%*	*26.6%*	*22.7%*	*30.3%*	*30.6%*	*23.0%*	*27.0%*	*27.7%*	*28.0%*	*30.7%*	*25.0%*	*28.0%*	*28.0%*
SG&A	96,704	23,850	22,338	20,969	15,543	82,700	19,817	21,700	20,000	21,000	82,517	22,000	23,000	23,750	22,250	91,000
% of total revenue	*18.2%*	*18.3%*	*13.3%*	*15.1%*	*9.0%*	*13.6%*	*11.2%*	*10.9%*	*10.7%*	*11.0%*	*10.9%*	*11.1%*	*10.3%*	*11.2%*	*10.5%*	*10.8%*
EBITDA	57,068	8,629	17,534	12,879	34,863	73,905	38,782	43,891	27,895	35,855	146,423	39,036	50,958	35,025	43,400	168,419
EBITDA Margin %	*10.7%*	*6.6%*	*10.4%*	*9.3%*	*20.3%*	*12.1%*	*21.8%*	*22.1%*	*15.0%*	*18.7%*	*19.4%*	*19.6%*	*22.9%*	*16.6%*	*20.4%*	*19.9%*
Operating Income	40,710	4,416	12,810	8,470	30,229	55,925	34,037	39,041	22,895	30,705	126,678	33,636	45,308	29,125	37,250	145,319
Operating Margin %	*7.7%*	*3.4%*	*7.6%*	*6.1%*	*17.6%*	*9.2%*	*19.2%*	*19.7%*	*12.3%*	*16.0%*	*16.8%*	*16.9%*	*20.4%*	*13.8%*	*17.5%*	*17.2%*
Interest Expense	4,833	2,042	2,051	1,854	1,479	7,426	1,705	1,600	1,500	1,500	6,305	1,500	1,500	1,500	1,500	6,000
Pretax Income	35,877	2,374	10,759	6,616	28,750	48,499	32,332	37,441	21,395	29,205	120,373	32,136	43,808	27,625	35,750	139,319
Income Taxes	15,024	912	4,979	2,930	10,966	19,787	11,657	14,976	8,558	11,682	46,873	12,854	17,523	11,050	14,300	55,727
Equity in earnings of affiliate	(996)	(261)	(267)	(191)	(284)	(1,003)	(285)	(250)	(250)	(250)	(1,035)	(250)	(250)	(250)	(250)	(1,000)
Net Income	21,849	1,723	6,047	3,877	18,068	29,715	20,903	22,715	13,087	17,773	74,535	19,532	26,535	16,825	21,700	84,591
Dividends	306	305	0	0	0	305	305	0	0	0	305	0	0	0	0	0
NI applicable to comm. stock	21,543	1,413	6,085	3,798	18,049	29,410	20,598	23,064	13,436	18,122	74,230	20,187	26,884	17,174	22,049	84,591
Reported EPS	$ 0.94	$ 0.07	$ 0.27	$ 0.17	$ 0.79	$ 1.30	$ 0.90	$ 0.97	$ 0.57	$ 0.76	$ 3.20	$ 0.85	$ 1.13	$ 0.72	$ 0.93	$ 3.63
Avg shares (as if converted)	22,492	21,364	22,377	22,193	23,314	22,312	23,444	23,700	23,700	23,700	23,636	23,800	23,800	23,800	23,800	23,800
Gross margin	*25.8%*	*21.7%*	*20.9%*	*21.2%*	*26.6%*	*22.7%*	*30.3%*	*30.6%*	*23.0%*	*27.0%*	*27.7%*	*28.0%*	*30.7%*	*25.0%*	*28.0%*	*28.0%*
EBITDA margin	*10.7%*	*6.6%*	*10.4%*	*9.3%*	*20.3%*	*12.1%*	*21.8%*	*22.1%*	*15.0%*	*18.7%*	*19.4%*	*19.6%*	*22.9%*	*16.6%*	*20.4%*	*19.9%*
Operating margin	*7.7%*	*3.4%*	*7.6%*	*6.1%*	*17.6%*	*9.2%*	*19.2%*	*19.7%*	*12.3%*	*16.0%*	*16.8%*	*16.9%*	*20.4%*	*13.8%*	*17.5%*	*17.2%*
Effective tax rate	*41.9%*	*38.4%*	*46.3%*	*44.3%*	*38.1%*	*40.8%*	*36.1%*	*40.0%*	*40.0%*	*40.0%*	*38.9%*	*40.0%*	*40.0%*	*40.0%*	*40.0%*	*40.0%*

Company Stats as of 3/31/11

Cash/investments	$ 98,045	Total debt	$ 81,678
Cash per share	$ 4.18	Total Debt/EBITDA	0.5x
Inventories	$ 70,820	Debt/Equity	34%
DSOs	39	Book Value/Share	$9.63
Inventory Days	52	Tangible Book/Share	$9.56

Eric A. Prouty (617) 371-3729
Eric Glover, CFA (415) 229-0669
Canaccord Genuity

Source: Company reports, Canaccord Genuity estimates
5/18/2011

Calendar year data

	Revenue	EBITDA	EPS	Y/Y Change
2010	$ 609,905	$ 73,905	$ 1.30	38%
2011E	$ 753,993	$ 146,423	$ 3.20	147%
2012E	$ 845,200	$ 168,419	$ 3.63	13%

Source: Company reports and Canaccord Genuity estimates

Figure 6: Orion Energy Systems income statement

		Fiscal Year 2011					Fiscal Year 2012E					Fiscal Year 2013E				
	FY 2010	Q1 Jun	Q2 Sep	Q3 Dec	Q4 Mar	FY 2011	Q1E Jun	Q2E Sep	Q3E Dec	Q4E Mar	FY 2012E	Q1E Jun	Q2E Sep	Q3E Dec	Q4E Mar	FY 2013E
Revenue	$ 65.42	$ 14.69	$ 13.72	$ 29.67	$ 31.63	$ 89.71	$ 20.00	$ 23.00	$ 33.00	$ 36.00	$ 112.00	$ 23.00	$ 27.00	$ 38.00	$ 42.00	$ 130.00
% change (sequential)	*na*	*-22%*	*-7%*	*116%*	*7%*	*na*	*-37%*	*15%*	*43%*	*9%*	*na*	*-36%*	*17%*	*41%*	*11%*	*na*
% change (year over year)	*-10%*	*16%*	*-6%*	*54%*	*68%*	*37%*	*36%*	*68%*	*11%*	*14%*	*25%*	*15%*	*17%*	*15%*	*17%*	*16%*
Cost of revenue	43.89	9.44	8.76	20.46	22.27	60.93	13.60	15.41	21.78	23.76	74.55	15.18	17.28	24.32	26.88	83.66
% of revenue	*67%*	*64%*	*64%*	*69%*	*70%*	*68%*	*68%*	*67%*	*66%*	*66%*	*67%*	*66%*	*64%*	*64%*	*64%*	*64%*
Gross profit	21.52	5.25	4.96	9.21	9.36	28.78	6.40	7.59	11.22	12.24	37.45	7.82	9.72	13.68	15.12	46.34
Gross margin %	*32.9%*	*35.7%*	*36.2%*	*31.1%*	*29.6%*	*32.1%*	*32.0%*	*33.0%*	*34.0%*	*34.0%*	*33.4%*	*34.0%*	*36.0%*	*36.0%*	*36.0%*	*35.6%*
G&A	12.84	2.95	2.99	2.71	2.79	11.43	2.80	2.76	2.97	2.88	11.41	2.99	3.24	3.23	3.36	12.82
% of total revenue	*20%*	*20%*	*22%*	*9%*	*9%*	*13%*	*14%*	*12%*	*9%*	*8%*	*10%*	*13%*	*12%*	*9%*	*8%*	*10%*
Sales and marketing	12.60	3.59	3.30	3.24	3.62	13.74	3.80	3.91	3.96	3.96	15.63	3.68	4.32	4.56	4.62	17.18
% of total revenue	*19%*	*24%*	*24%*	*11%*	*11%*	*15%*	*19%*	*17%*	*12%*	*11%*	*14%*	*16%*	*16%*	*12%*	*11%*	*13%*
Research & development	1.89	0.61	0.57	0.61	0.54	2.33	0.50	0.58	0.66	0.72	2.46	0.58	0.68	0.76	0.84	2.85
% of total revenue	*3%*	*4%*	*4%*	*2%*	*2%*	*3%*	*3%*	*3%*	*2%*	*2%*	*2%*	*3%*	*3%*	*2%*	*2%*	*2%*
Adj EBITDA	(1.75)	(0.90)	(0.91)	4.74	3.83	6.77	0.80	1.85	5.13	6.18	13.96	2.08	2.99	6.63	7.80	19.49
EBITDA margin %	*-3%*	*-6%*	*-7%*	*16%*	*12%*	*8%*	*4%*	*8%*	*16%*	*17%*	*12%*	*9%*	*11%*	*17%*	*19%*	*15%*
Operating income	(5.80)	(1.90)	(1.90)	2.66	2.42	1.27	(0.70)	0.35	3.63	4.68	7.96	0.58	1.49	5.13	6.30	13.49
Operating margin %	*-8.9%*	*-12.9%*	*-13.9%*	*8.9%*	*7.6%*	*1.4%*	*-3.5%*	*1.5%*	*11.0%*	*13.0%*	*7.1%*	*2.5%*	*5.5%*	*13.5%*	*15.0%*	*10.4%*
Other income, net	0.26	(0.06)	(0.05)	(0.10)	(0.17)	(0.37)	(0.10)	(0.10)	(0.10)	(0.10)	(0.40)	(0.10)	(0.10)	(0.10)	(0.10)	(0.40)
Pretax income	(5.54)	(1.96)	(1.95)	2.56	2.25	0.90	(0.80)	0.25	3.53	4.58	7.56	0.48	1.39	5.03	6.20	13.09
Pretax margin %	*-8%*	*-13%*	*-14%*	*9%*	*7%*	*1%*	*-4%*	*1%*	*11%*	*13%*	*7%*	*2%*	*5%*	*13%*	*15%*	*10%*
Income taxes	(1.35)	(0.90)	(1.79)	1.92	0.48	(0.30)	(0.32)	0.10	1.41	1.83	3.02	0.19	0.55	2.01	2.48	5.24
Effective rate	*24%*	*46%*	*92%*	*75%*	*21%*	*-33%*	*40%*	*40%*	*40%*	*40%*	*40%*	*40%*	*40%*	*40%*	*40%*	*40%*
Net income	(4.19)	(1.06)	(0.16)	0.64	1.77	1.20	(0.48)	0.15	2.12	2.75	4.53	0.29	0.83	3.02	3.72	7.85
Net margin %	*-6%*	*-7%*	*-1%*	*2%*	*6%*	*1%*	*-2%*	*1%*	*6%*	*8%*	*4%*	*1%*	*3%*	*8%*	*9%*	*6%*
EPS	$ (0.19)	$ (0.05)	$ (0.01)	$ 0.03	$ 0.08	$ 0.05	$ (0.02)	$ 0.01	$ 0.09	$ 0.11	$ 0.18	$ 0.01	$ 0.03	$ 0.12	$ 0.14	$ 0.31
% change (year over year)	*-1050%*	*NM*	*-83%*	*-25%*	*-300%*	*-126%*	*NM*	*-200%*	*+200%*	*+38%*	*+260%*	*NM*	*+200%*	*+33%*	*+27%*	*+72%*
Diluted shares	22.0	22.5	22.6	22.7	23.3	23.2	23.0	24.3	24.8	25.3	24.6	25.4	25.5	25.6	25.7	25.6
Gross margin	*32.9%*	*35.7%*	*36.2%*	*31.1%*	*29.6%*	*32.1%*	*32.0%*	*33.0%*	*34.0%*	*34.0%*	*33.4%*	*34.0%*	*36.0%*	*36.0%*	*36.0%*	*35.6%*
EBITDA margin	*-2.7%*	*-6.1%*	*-6.6%*	*16.0%*	*12.1%*	*7.5%*	*4.0%*	*8.0%*	*15.5%*	*17.2%*	*12.5%*	*9.0%*	*11.1%*	*17.4%*	*18.6%*	*15.0%*
Operating margin	*-8.9%*	*-12.9%*	*-13.9%*	*8.9%*	*7.6%*	*1.4%*	*-3.5%*	*1.5%*	*11.0%*	*13.0%*	*7.1%*	*2.5%*	*5.5%*	*13.5%*	*15.0%*	*10.4%*
Net margin	*-6.4%*	*-7.2%*	*-1.2%*	*2.2%*	*5.6%*	*1.3%*	*-2.4%*	*0.6%*	*6.4%*	*7.6%*	*4.0%*	*1.2%*	*3.1%*	*7.9%*	*8.9%*	*6.0%*

Company stats as of 3/31/11

Cash/investments	$ 12.6	AP	$ 12.48
A/R	$ 26.5	Days Payable	50.4
Inventories	$ 29.5	Total Debt	$ 5.36
DSOs	75	Debt/Equity	6%
Inventory Days	119	Book Value/Share	$ 3.89

Eric A. Prouty (617) 371-3729
Eric Glover, CFA (415) 229-0669
Canaccord Genuity

Source: Company reports, Canaccord Genuity estimates

5/19/2011

Calendar year data

Year	Revenue	Adj EBITDA	EPS	Y/Y Change
2010	$ 76.95	$ 2.65	$ (0.07)	
2011E	$ 107.63	$ 11.61	$ 0.16	
2012E	$ 124.00	$ 17.87	$ 0.27	69%

Source: Company reports and Canaccord Genuity estimates

Figure 7: Real Goods Solar income statement

		Fiscal Year 2010					Fiscal Year 2011E					Fiscal Year 2012E				
	FY 2009	Q1 Mar	Q2 Jun	Q3 Sep	Q4 Dec	FY 2010	Q1A Mar	Q2E Jun	Q3E Sep	Q4E Dec	FY 2011E	Q1E Mar	Q2E Jun	Q3E Sep	Q4E Dec	FY 2012E
Net revenue	$ 64,328	$ 15,005	$ 17,531	$ 24,626	$ 20,162	$ 77,324	$ 17,425	$ 20,000	$ 28,000	$ 25,000	$ 90,425	$ 20,000	$ 23,000	$ 33,000	$ 29,000	$ 105,000
% change (Q/Q)		-22%	17%	40%	-18%		-14%	15%	40%	-11%		-20%	15%	43%	-12%	
% change (Y/Y)	64%	57%	38%	7%	5%	20%	16%	14%	14%	24%	17%	15%	15%	18%	16%	16%
Cost of goods sold	48,371	10,974	12,493	18,407	13,940	55,814	12,396	14,200	19,740	17,625	63,961	14,200	16,215	22,935	20,300	73,650
Gross profit	15,957	4,031	5,038	6,219	6,222	21,510	5,029	5,800	8,260	7,375	26,464	5,800	6,785	10,065	8,700	31,350
Gross Margin %	24.8%	26.9%	28.7%	25.3%	30.9%	27.8%	28.9%	29.0%	29.5%	29.5%	29.3%	29.0%	29.5%	30.5%	30.0%	29.9%
SG&A	18,553	4,003	4,616	5,044	5,826	19,489	4,963	5,200	5,880	6,000	22,043	5,400	5,750	6,270	6,380	23,800
% of total revenue	28.8%	26.7%	26.3%	20.5%	28.9%	25.2%	28.5%	26.0%	21.0%	24.0%	24.4%	27.0%	25.0%	19.0%	22.0%	22.7%
Operating Income	(2,596)	28	422	1,175	396	2,021	66	600	2,380	1,375	4,421	400	1,035	3,795	2,320	7,550
Operating Margin %	-4.0%	0.2%	2.4%	4.8%	2.0%	2.6%	0.4%	3.0%	8.5%	5.5%	4.9%	2.0%	4.5%	11.5%	8.0%	7.2%
Adj. EBITDA	(1,876)	224	605	1,450	618	2,897	288	800	2,580	1,575	5,243	650	1,285	4,045	2,570	8,550
EBITDA Margin %	-2.9%	1.5%	3.5%	5.9%	3.1%	3.7%	1.7%	4.0%	9.2%	6.3%	5.8%	3.3%	5.6%	12.3%	8.9%	8.1%
Interest income	(2)	0	3	2	10	15	2	0	0	0	2	0	0	0	0	0
Pretax Income	(2,598)	28	425	1,177	406	2,036	68	600	2,380	1,375	4,423	400	1,035	3,795	2,320	7,550
Income Taxes	(1,021)	11	157	473	156	797	31	234	928	536	1,729	156	404	1,480	905	2,945
Income (Loss)	(1,577)	17	268	704	250	1,239	37	366	1,452	839	2,694	244	631	2,315	1,415	4,606
Net Margin %	-2.5%	0.1%	1.5%	2.9%	1.2%	1.6%	0.2%	1.8%	5.2%	3.4%	3.0%	1.2%	2.7%	7.0%	4.9%	4.4%
EPS	$ (0.09)	$ 0.00	$ 0.02	$ 0.04	$ 0.01	$ 0.07	$ 0.00	$ 0.02	$ 0.08	$ 0.05	$ 0.15	$ 0.01	$ 0.03	$ 0.13	$ 0.08	$ 0.25
EPS Growth (Y/Y)	-48%	-101%	-163%	+345%	+16%	-178%	+118%	-1%	+105%	+234%	+117%	+556%	+72%	+59%	+69%	+71%
Average FD shares	18,199	18,364	18,399	18,305	18,308	18,344	18,310	18,400	18,400	18,400	18,378	18,400	18,400	18,400	18,400	18,400
Gross Margin	24.8%	26.9%	28.7%	25.3%	30.9%	27.8%	28.9%	29.0%	29.5%	29.5%	29.3%	29.0%	29.5%	30.5%	30.0%	29.9%
Operating Margin	-4.0%	0.2%	2.4%	4.8%	2.0%	2.6%	0.4%	3.0%	8.5%	5.5%	4.9%	2.0%	4.5%	11.5%	8.0%	7.2%
Tax rate	39.3%	39.3%	36.9%	40.2%	38.4%	39.1%	45.6%	39.0%	39.0%	39.0%	39.1%	39.0%	39.0%	39.0%	39.0%	39.0%
Net Margin	-2.5%	0.1%	1.5%	2.9%	1.2%	1.6%	0.2%	1.8%	5.2%	3.4%	3.0%	1.2%	2.7%	7.0%	4.9%	4.4%

Company stats as of 3/31/11

Cash/investments	$ 13,355	Total debt	$ -
Cash per share	$ 0.73	Total Debt/EBITDA	0.0x
Inventories	$ 5,809	Debt/Equity	0%
DSOs	113	Book Value/Share	$ 1.75
Inventory Days	42	Tangible Book/Share	$ 1.71

Eric A. Prouty (617) 371-3729
Eric Glover, CFA (415) 229-0669
Canaccord Genuity

Source: Company reports, Canaccord Genuity estimates

5/18/2011

Calendar year data

Year	Revenue	EBITDA	EPS
2010	$ 77,324	$ 2,897	$ 0.07
2011E	$ 90,425	$ 5,243	$ 0.15
2012E	$ 105,000	$ 8,550	$ 0.25

Source: Company reports and Canaccord Genuity estimates

UNDER CONSTRUCTION…

As renewable energy installations continue to increase, concerns over “visual pollution” seem to be gaining prominence as well. While solar and wind farms aren’t necessarily the most attractive things to look at, neither are nuclear or coal-fired power plants, if you think about it. While there is a growing need for more (and more reliable) power, people generally don’t want to see where that energy is coming from – especially if that new power source is hovering over their driveway. The New York Times had a story recently that vividly illustrates the issue:

Solar panels rise pole by pole, followed by gasps of ‘eyesore’

ORADELL, N.J. — Nancy and Eric Olsen could not pinpoint exactly when it happened or how. All they knew was one moment they had a pastoral view of a soccer field and the woods from their 1920s colonial-style house; the next all they could see were three solar panels.

“I hate them,” Mr. Olsen, 40, said of the row of panels attached to electrical poles across the street. “It’s just an eyesore.”

Around the corner lives Tom Trobiano, 61, a liquor salesman, now adapting to the lone solar panel hanging over his driveway. “When it’s up close,” he said, “the panel takes on a life of its own.”

Invasion of the solar panels: New Jersey residents taken by surprise as PSE&G blankets neighborhoods with solar panels affixed to utility poles.

Image source: New York Times

Like a massive Christo project but without the advance publicity, installations have been popping up across New Jersey for about a year now, courtesy of New Jersey’s largest utility, the Public Service Electric and Gas Company. Unlike other solar projects tucked away on roofs or in industrial areas, the utility is mounting 200,000 individual panels in neighborhoods throughout its service area, covering nearly three-quarters of the state.

The solar installations, the first and most extensive of their kind in the country, are part of a $515 million investment in solar projects by PSE&G under a state mandate that by 2021 power providers get 23 percent of their electricity from renewable sources. If they were laid out in a solar farm, the 5-by-2.5-foot panels would blanket 170 acres.

New Jersey is second only to California in solar power capacity thanks to financial incentives and a public policy commitment to renewable energy industries seeded during Gov. Jon S. Corzine’s administration. But what might have been a point of pride in a state better known as the nation’s leader in toxic Superfund sites has instead caused suburban aesthetic unrest.

Some residents consider the overhanging panels “ugly” and “hideous” and worry aloud about the effect on property values.

Though nearly halfway finished, the company’s crews have encountered some fresh resistance in Bergen County, where cities, villages and boroughs are in varying stages of mortification. Local officials have forced a temporary halt in many towns as they seek assurances that they will not be liable in case of injury, but also to buy time for suggesting alternative sites — like dumps — to spare their tree-lined streets.

And here in Oradell, at least one panel has gone missing.

When and where the panels will show up next can be a mystery, prompting complaints over the lack of prior notice.

“I came back from running errands and there they were,” Mrs. Olsen, 37, said. “It’s not right. They should have warned us.”

In neighboring Ridgewood, Deputy Mayor Thomas M. Riche said constituents had called, sent e-mails and stopped him on the street demanding that he halt the encroaching blight. Ridgewood, an affluent village of about 24,000, got PSE&G to cease installations after only a few had been put up, over concerns that they would interfere with the emergency communications boxes on the poles.

The talks are continuing, Mr. Riche said, adding that he is trying to steer the Ridgewood panels to a town park-and-ride lot and its public schools.

“A cluster of panels in one area is better than individual panels all over the town,” he said. “We’re not against solar energy, but there are more efficient ways than having panels on the utility poles.”

PSE&G officials said their search for maximum sun exposure could not dodge and weave residential areas in a place as crowded as New Jersey. It turns out that only a quarter of the company’s 800,000 poles are suitable for the panels, which are mounted 15 feet high and need good southern exposure.

Solar industry experts approve of the decentralized pole-by-pole approach and said it could be just as efficient and cost effective as larger installations.

“Solar is extremely flexible,” said Monique Hanis, a spokeswoman for the Solar Energy Industries Association, a trade group based in Washington. “The utility owns the property already, and the panels can feed right into the transmission line.”

Ralph A. LaRossa, PSE&G’s president and chief executive, said that the company was also placing panels, which direct the energy they generate back into the power grid, at its industrial yards and on facility rooftops, and that it was leasing flat roofs of large buildings, including several schools in Newark. “We’re looking for ways to deploy the technology in the cheapest and most accessible way,” he said.

Yes, Mr. LaRossa said, his company could have communicated better, but he added that Bergen County had become “a pocket” of opposition in what had generally been a welcoming reception.

And not every burg in Bergen County is rebelling. Over in Fair Lawn, Mayor Lisa Swain said that her city had not interfered with the program and that she was trying to make the community sustainable in other ways, like using motion sensor lighting in city buildings.

“I’m going to do what I can,” she said.

Sean Smith, a 43-year-old airline sales supervisor in Fair Lawn, said he was fine with the seven panels on his street, especially “if it’s helping the greenhouse effect.”

“We have the kids to think about,” he said.

But his neighbor Tony Christofi, a 47-year-old contractor, wondered aloud whether Fair Lawn, by not fighting, was getting more than its fair share.

“I’m fine with green energy,” he said, “but are the savings going to be passed on to consumers?”

PSE&G officials said solar energy was still more expensive to produce than more traditional power sources and acknowledged that bills were going up 29 cents a month. One panel will produce enough kilowatt hours in one year to light four 60-watt bulbs around the clock for around six weeks, the company said.

When complete, the panels on the poles are expected to provide half of the 80 megawatts of electricity generated by the utility's overall $515 million solar investment — enough to power 6,500 homes.

Although he supports renewable energy, Gov. Chris Christie, through a spokesman, characterized the mandates that spawned the panel project as “extremely aggressive.” He has already asked that they be re-evaluated.

Over in Oradell, population 8,000, some residents say the new units aren’t worth the effort, producing too little power for the aggravation.

The case of the missing panel has been referred to local law enforcement.

“PSE&G takes a very dim view of people tampering with the equipment,” said Francis Sullivan, a company spokesman, “but that’s secondary to the fact that it’s just a dangerous idea.” All the units are connected to high-voltage wires.

Richard Joel Sr., a lawyer in town, said a panel close to his house had been removed, but demurred when asked if he knew details.

“I’m not saying what happened,” he said.

Figure 8: Canaccord Genuity Green Building Index member companies

Company	Primary Business
Acuity Brands, Inc. (NYSE:AYI)	Lighting fixtures
Ameresco, Inc. (NYSE:AMRC)	Energy efficiency
American DG Energy, Inc. (AMEX:ADGE)	On-site energy systems
AO Smith Corp. (NYSE:AOS)	Water/HVAC equipment
Apogee Enterprises, Inc. (Nasdaq:APOG)	Energy efficient glass
Brookfield Properties Corporation (NYSE:BPO)	REIT
Comfort Systems USA Inc. (NYSE:FIX)	HVAC services
Comverge, Inc. (Nasdaq:COMV)	Demand response and energy efficiency
Cree Inc. (Nasdaq:CREE)	LED lighting
Dialight PLC (LSE:DIA)	LED lighting
Echelon Corporation (Nasdaq:ELON)	Building automation controls
Ecology & Environment, Inc. (Nasdaq:EEI)	Environmental consulting
EMCOR Group Inc. (NYSE:EME)	Electrical services
First Capital Realty Inc. (TSX:FCR)	REIT
Headwaters Inc. (NYSE:HW)	Building materials
Herman Miller Inc. (Nasdaq:MLHR)	Office furniture
ICF International Inc. (Nasdaq:ICFI)	Environmental consulting
Interface Inc. (Nasdaq:IFSI.A)	Carpet
Johnson Controls Inc. (NYSE:JCI)	Building automation controls
Jones Lang LaSalle Inc. (NYSE:JLL)	Real estate services
Kingspan Group plc (ISE:KRX)	Energy efficient insulation
Liberty Property Trust (NYSE:LRY)	REIT
Lime Energy Co. (Nasdaq:LIME)	Energy efficiency
LSB Industries Inc. (NYSE:LXU)	Geothermal heat pumps
NCI Building Systems Inc. (NYSE:NCS)	Engineered metal buildings
Orion Energy Systems, Inc (AMEX:OESX)	Energy efficient solutions
ProLogis (NYSE:PLD)	REIT
Quanex Building Products Corporation (NYSE:NX)	Exterior building products
Real Goods Solar, Inc. (Nasdaq:RSOL)	Solar power
Servidyne, Inc. (Nasdaq:SERV)	Energy efficiency consulting services
Southwall Technologies Inc. (OTCBB:SWTX)	Energy efficient films
Stantec Inc. (TSX:STN)	Architectural design and consulting
Steelcase Inc. (NYSE:SCS)	Office furniture
SunPower Corporation (Nasdaq:SPWR.A)	Solar power
Thomas Properties Group Inc. (Nasdaq:TPGI)	REIT
Trex Co. Inc. (NYSE:TREX)	Composite lumber
WaterFurnace Renewable Energy, Inc. (TSX:WFI)	Geothermal heat pumps
Watsco Inc. (NYSE:WSO)	HVAC equipment
Foreign stock exchange key:	
ISE: Irish Stock Exchange LSE: London Stock Exchange TSX: Toronto Stock Exchange	

Source: Canaccord Genuity

INVESTMENT RISKS

Lime Energy

Customer concentration: In 2010, one client accounted for approximately 17% of Lime's total revenue. In 2009, two clients each accounted for approximately 15% of total revenue.

Expense structure mismatched to revenue levels: Lime has grown its operating expenses significantly in preparation for substantially higher revenue levels. If the company fails to achieve substantially higher revenue, losses are likely to continue.

Competitive environment expected to intensify: Given the growth and demand for energy services, competition within the space is expected to intensify as the market evolves. Key risks are greater price competition and internal competition from energy service companies, in our opinion.

LSB Industries

The cost and availability of raw materials, including anhydrous ammonia and natural gas in the chemical business and copper and steel in the indoor climate control business.

The climate control business is affected by cyclical factors, particularly commercial renovation and construction.

Sales are largely dependent on a limited number of customers, particularly within the chemical business.

Environmental laws and regulations, particularly with regard to the chemical business, may subject LSB to fines or other penalties that may affect the company's ability to operate in that market.

Orion Energy Systems

Orion faces numerous competitors, many of which are larger, better capitalized, and greater engineering and manufacturing capabilities.

Orion's business is dependent upon its customers' desire to replace their existing lighting systems. Decisions to retrofit existing buildings are influenced by the strength of the general economy, the size of customers' capital budgets, and overall trends within the commercial building/refurbishment markets.

Orion's products use components and raw materials that are subject to potentially significant price fluctuations.

Real Goods Solar

The solar energy market is at an early stage of development and may not be widely adopted by consumers in the future.

The solar market is dependent on the availability of government subsidies and incentives to support its development.

Solar energy faces competition from other renewable energy sources, such as wind, hydroelectric, geothermal, concentrated solar, and biomass.

Growing adoption of solar energy is dependent upon the retail price of conventional energy. If conventional energy costs remain flat or fall, adoption of solar energy systems could decline.

Real Goods Solar is dependent upon solar energy installations in only two states: California and Colorado.

The company's growth is dependent upon its ability to make and integrate suitable acquisitions.

The company depends on a limited number of suppliers for the components used in its solar energy systems.

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(as of 3 May 2011)

	Coverage Universe		IB Clients
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Buy	466	59.4%	36.7%
Speculative Buy	67	8.5%	62.7%
Hold	234	29.8%	17.5%
Sell	18	2.3%	11.1%
	785	100.0%	

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