

WORLD ENERGY SOLUTIONS, INC.

Form 10-Q

November 13, 2008

United States

Securities and Exchange Commission

Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)

OF THE

SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2008.

or

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from _____ to _____.

Commission file number **000-25097**

WORLD ENERGY SOLUTIONS, INC.

(Name of small business issuer in its charter)

Florida

(State or other jurisdiction of incorporation or organization)

65-0783722

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

3900A 31st Street North, St. Petersburg, Florida 33714

(Address of principal executive offices and Zip Code)

Registrant's telephone number, including area code:727-525-5552

Indicate by check mark whether the registrant: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes No

The number of shares of the issuer's common stock, par value \$.0001 per share, outstanding as of November 10, 2008 was 91,442,967.

[Link to Table of Contents](#)

TABLE OF CONTENTS

	Page
<u>Part I. Financial Information</u>	<u>3</u>
<u>Item 1. Financial Statements.</u>	<u>3</u>
<u>Consolidated Balance Sheets for the periods ending</u> <u>September 30, 2008 (unaudited) and December 31, 2007 (audited).</u>	<u>3</u>
<u>Consolidated Statements of Operations for the 3 month and 9</u> <u>periods ending September 30, 2008 and 2007 (unaudited).</u>	<u>4</u>
<u>Consolidated Statements of Cash Flows for the 3 month and 9 periods</u> <u>ending September 30, 2008 and 2007 (unaudited).</u>	<u>5</u>
<u>Notes to Consolidated Financial Statements</u>	<u>7</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.</u>	<u>18</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk.</u>	<u>22</u>
<u>Item 4. Controls and Procedures.</u>	<u>22</u>
<u>Item 4T. Controls and Procedures.</u>	<u>22</u>
<u>Part II. Other Information</u>	<u>23</u>
<u>Item 1. Legal Proceedings.</u>	<u>23</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.</u>	<u>23</u>
<u>Item 3. Defaults Upon Senior Securities.</u>	<u>24</u>
<u>Item 4. Submission of Matters to a Vote of Security Holders.</u>	<u>24</u>
<u>Item 5. Other Information.</u>	<u>24</u>

Item 6. Exhibits

24

Signatures

25

[Link to Table of Contents](#)**Part I. Financial Information****Item 1. Financial Statements.****WORLD ENERGY SOLUTIONS, INC.****CONSOLIDATED BALANCE SHEETS**

	ASSETS		
		September 30,	December 31,
		2008	2007
		(unaudited)	(audited)
Current assets			
Cash	\$	208,319	\$ 43,112
Accounts receivable		67,539	28,441
Inventory, net		80,359	87,461
Prepaid expenses and other current assets		219,783	175,784
Total current assets		576,000	334,798
Property & equipment, net		282,197	165,196
Long term deposits		3,850	3,850
Due from related party		781	362
Intangibles, net		146,535	108,399
Intangible assets subject to allocation		818,000	-
Total assets	\$	1,827,363	\$ 612,605

LIABILITIES AND STOCKHOLDERS EQUITY

Current liabilities

Accounts payable	\$	82,316	\$ 52,618
------------------	----	--------	-----------

Edgar Filing: WORLD ENERGY SOLUTIONS, INC. - Form 10-Q

Accrued expenses	426,618	370,666
Loan payable	15,135	-
Advance payments from dealers and customers	16,776	16,352
Due to related party	-	50,000
Total current liabilities	540,845	489,636
Stockholders' equity		
Preferred stock; \$.0001 par value; 100,000,000 shares authorized:		
Series B, 100,000 and -0- shares issued, respectively	10	-
Series C, 100,000 and -0- shares issued, respectively	10	-
Common stock; \$.0001 par value; 750,000,000 shares authorized; 81,915,078 and 43,933,689 shares issued and outstanding		
	8,190	4,394
Paid-in capital	22,606,723	16,603,291
Common stock payable	105,000	-
Accumulated deficit	(21,433,415)	(16,484,716)
Total stockholders' equity	1,286,518	122,969
Total Liabilities and Stockholders' Equity	\$ 1,827,363	\$ 612,605
The accompanying notes are an integral part of these consolidated financial statements		

[Link to Table of Contents](#)**WORLD ENERGY SOLUTIONS, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS****UNAUDITED**

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2008	2007	2008	2007
Net sales	\$ 132,900	\$ 147,544	\$ 356,183	\$ 364,729
Cost of goods sold	66,872	62,694	185,720	178,912
Gross profit	66,028	84,850	170,463	185,817
General and administrative expenses	78,860	239,110	506,100	638,717
Payroll expense	167,278	111,173	469,603	382,199
Consulting fees	262,023	105,047	508,842	1,073,608
Research and development	187,203	76,074	357,162	235,815
Impairment loss	-	3,332,650	3,264,000	3,332,650
Loss from operations	(629,336)	(3,779,204)	(4,935,244)	(5,477,172)
Other income (expense)				
Interest income (expense)	(5,586)	(606)	(4,796)	532
Loss on disposal of property & equipment	-	462	(8,658)	(388)
Total other income (expense)	(5,586)	(144)	(13,454)	144
Earnings (loss) before provision for Income taxes	(634,922)	(3,779,348)	(4,948,698)	(5,477,028)
	-	-	-	-

Edgar Filing: WORLD ENERGY SOLUTIONS, INC. - Form 10-Q

Provision for income taxes

Net loss	(634,922)	(3,779,348)	(4,948,698)	(5,477,028)
Preferred stock dividends	-	50,625	-	152,930
Net income (loss) available to common shareholders	\$ (634,922)	\$ (3,829,973)	\$ (4,948,698)	\$ (5,629,958)
Income (loss) per common share	\$ (0.01)	\$ (0.13)	\$ (0.08)	\$ (0.19)
Weighted average common shares outstanding	76,621,647	30,485,855	58,702,564	29,276,334

The accompanying notes are an integral part of these consolidated financial statements

[Link to Table of Contents](#)**WORLD ENERGY SOLUTIONS, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE NINE MONTHS ENDED SEPTEMBER 30,****UNAUDITED**

	2008	2007
Cash flows from operating activities		
Net loss	\$ (4,948,698)	\$ (5,477,028)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation & Amortization	51,662	25,514
Impairment loss	3,264,000	3,332,650
Loss on disposal	8,658	588
Stock based donation	22,800	-
Stock based consulting & compensation expense	14,000	1,115,601
(Increase) decrease in:		
Accounts receivable	(39,100)	(19,588)
Inventory	7,102	11,263
Prepaid expenses and other assets	203,368	188,861
Increase (decrease) in:		
Accounts payable	29,698	46,258
Accrued expenses	55,963	2,181
Advance payments from dealers & customers	424	(185)
Total adjustments	3,618,575	4,703,143
Net cash (used) in operating activities	(1,330,123)	(773,885)
Cash flows from investing activities		

Edgar Filing: WORLD ENERGY SOLUTIONS, INC. - Form 10-Q

Purchase of fixed assets	(189,977)	(73,371)
Proceeds from sale of fixed asset	26,171	2,700
Proceeds from loan receivable	1,688	-
Cash received in acquisitions	325,000	450,000
Net cash provided by investing activities	162,882	379,329
Cash flows from financing activities		
Proceeds from issuance of common stock	\$ 1,382,448	\$ 778,150
Proceeds from related party loans	17,000	-
Repayment of related party note payable	(67,000)	-
Proceeds from credit line	62,608	-
Payments on credit line	(62,608)	-
Proceeds from purchase or option rights	-	20
Net cash provided by financing activities	1,332,448	778,170
Net increase in cash	165,207	383,614
Cash, beginning of period	43,112	88,400
Cash end of period	\$ 208,319	\$ 472,014
Supplemental disclosures of non-cash investing and financing activities:		
Common stock issued for services	\$ -	\$ 848,261

[Link to Table of Contents](#)

WORLD ENERGY SOLUTIONS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30,

UNAUDITED

(continued)

	2008	2007
Accrual of prepaid expenses	20,535	121,000
Donation of common shares	22,800	-
Contribution to capital for payment of consulting services	14,000	-
Convertible preferred shares issued for the acquisition of subsidiary AA EI	3,300,000	
Convertible preferred shares issued for the acquisition of subsidiary HHTI	713,000	-
Common shares payable for the acquisition of subsidiary HHTI	105,000	-
Common stock issued for prepaid services	250,000	-
Debt issued for property & equipment	8,078	50,000
Common stock issued in acquisition of subsidiary HSTI	-	3,375,000
License acquired in acquisition of AA EI	31,000	-
Accrual of interest	1,349	-
Cash flow information:		
Cash paid for interest	\$ 5,484	\$ 8,381
Cash paid for income taxes	\$ -	\$ -

The accompanying notes are an integral part of these consolidated financial statements

[Link to Table of Contents](#)

WORLD ENERGY SOLUTIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The information presented herein for the nine months ended September 30, 2008, is unaudited.

(1) Organization:

Advanced 3D Ultrasound Services, Inc. was incorporated on September 23, 1997. Advanced 3D Ultrasound Services, Inc. merged with World Energy Solutions, Inc. (WESI) effective August 17, 2005. Advanced 3D Ultrasound Services, Inc. remained as the surviving entity as the legal acquirer, while WESI was the accounting acquirer.

On November 7, 2005, Advanced 3D Ultrasound Services, Inc. changed its name to World Energy Solutions, Inc.

On November 7, 2005, WESI merged with Professional Technical Systems, Inc. (PTS). WESI remained as the surviving entity as the legal acquirer, while PTS was the accounting acquirer.

On October 11, 2006, WESI acquired Pure Air Technologies, Inc. (PATI), a subsidiary of UTEK Corporation in a tax-free stock for stock exchange. The Company issued 100,000 shares of Series A convertible preferred stock to UTEK Corporation in exchange for 100% of the issued and outstanding shares of PATI, assignment of a world wide exclusive technology license, a sponsored research agreement and \$300,000 cash. The 100,000 shares of preferred stock plus \$202,500 of accrued dividends were converted into 8,437,500 shares of common stock on October 17, 2007.

On September 28, 2007, WESI acquired Hydrogen Safe Technologies, Inc. (HSTI) in a tax free stock for stock exchange. As consideration for the agreement, the Company issued 7,500,000 unregistered shares of common stock to UTEK Corporation in exchange for 100% of the issued and outstanding shares of HSTI, assignment of an exclusive technology license for the detection of hydrogen in vehicles, engines and / or water heaters using hydrogen and oxygen, prepaid consulting fees, related to a nine month consulting agreement, and \$450,000 cash.

The acquisition of HSTI was considered to be a purchase of productive assets, per guidance of EITF 98-3, *Determining Whether a Non-monetary Transaction Involves the Receipt of Productive Assets or of a Business* as a result of the analysis of the inputs, processes and outputs and consideration of the total concentration of the fair value of the transferred assets to the acquisition. Accordingly, no goodwill was recognized on the purchase.

The HSTI license agreement has 3% royalties due on net sales of the licensed product which can be netted against required minimum annual royalties. For the year 2008-2009, \$5,000 minimum royalties are due and payable January 31, 2010; for years 2009-2010, the minimum royalty is \$10,000; for years 2010-2011 the minimum royalty is \$15,000; after 2011 the minimum annual royalties are \$30,000. All minimum royalties are due and payable on January 31, of the following calendar year. The agreement can be terminated on thirty days notice if the company fails to pay any due and payable royalties and the license would revert back to the licensor and all royalties and payments would cease.

The purchase price of \$3,825,000 was based on the stock closing price on the date of acquisition. The resulting intangible asset of \$3,332,650 was analyzed and although the Company anticipates further development of the related technology, as of September 30, 2007, the technology had not yet been tested on the market nor had there been any related sales. Estimation of future sales could not be determined as the technology is not ready to be introduced into the market place and knowledge of when or if the Company can fully develop the technology is not known. In addition, consideration of other similar technology entering the market prior to the Company can not be determined. Based on the above factors, the Company concluded that the capitalized value of the intangible could not be supported and therefore as of September 30, 2007, the Company deemed the intangible asset to be impaired and expensed it.

World Energy Solutions, Limited was created during 2007 to serve as a platform for marketing the Company's products and developments in the UK and all European Union countries, when the time is right. The entity does not have activity and has not been capitalized, and therefore, it is not consolidated.

On June 10, 2008, WESI acquired Advanced Alternative Energy, Inc. (AAEI) in a tax free stock for stock exchange. AAEI was incorporated in the State of Florida on May 20, 2008. As consideration for the agreement, the Company issued 100,000 shares of Series B Convertible Preferred Stock to UTEK Corporation in exchange for 100% of the issued and outstanding shares of AAEI, assignment of an exclusive technology license for the production and preparation of

[Link to Table of Contents](#)

WORLD ENERGY SOLUTIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Organization (continued):

mechanically and electrochemically stable electrodes and transition metal oxide catalysts; prepaid consulting fees and \$200,000 cash.

The preferred shares may be converted by the holder at any time into common stock prior to the sixty month anniversary of the execution of the agreement into the value of \$3,500,000 of common shares of WESI, based on the average of the five day closing price prior to the conversion. At any time after six months and before the sixty month anniversary of the execution of the agreement, WESI will have the right, at its sole discretion, to repurchase at an agreed upon percentage value, any non-converted shares of the Series B Convertible Preferred Stock. The shares may be repurchased within twelve months at 105%; within thirteen and twenty-four months at 110%; within twenty-five and thirty-six months at 115%; and at anytime after thirty-six months at 120% of the value of the original pro rata purchase price. The convertible preferred shares have no voting rights, no liquidation preferences and no dividend rights.

The acquisition of AA EI was considered to be a purchase of productive assets, per guidance of EITF 98-3, *Determining Whether a Non-monetary Transaction Involves the Receipt of Productive Assets or of a business* as a result of the analysis of the inputs, processes and outputs and consideration of the fair value of the transferred assets to the acquisition. Accordingly, no goodwill was recognized on the purchase.

Royalties will become due on a quarterly basis based upon the net sales of any of the licensed products sold from the technology license. Royalties are to be paid within ninety days and are based on 3% of the net sales on the licensed products. The royalty obligations will terminate on a country by country basis upon the expiration of the last to expire licensed patent covering the licensed product in each such country. Twelve months after the first anniversary of the execution of the license agreement, minimum annual royalties become due. The minimum royalty due for the second anniversary year of the executed agreement is \$5,000; for the third anniversary is \$10,000; for the fourth anniversary is \$15,000 and for the fifth anniversary thereafter until the end of the license term is \$30,000. AA EI will reimburse any patent costs incurred to maintain or control the patents related to the technology and licensed products.

The prepaid consulting expenses relate to technical consulting services to be provided related to the license. The consulting agreement was entered into by UTEK on the behalf of AA EI and per the agreement any additional

consulting expenses will be the direct responsibility of UTEK.

The purchase price of \$3,500,000 was based on the agreed value of the Series B Convertible Preferred Stock as of the date of acquisition. The resulting intangible asset of \$3,264,000 was analyzed and although the Company anticipates further development of the related technology, as of June 30, 2008, the technology had not yet been tested on the market nor had there been any related sales. Estimation of future sales could not be determined as the technology is not ready to be introduced into the market place and knowledge of when or if the Company can fully develop the technology is not known. In addition, consideration of other similar technology entering the market prior to the Company can not be determined. Based on the above factors, the Company concluded that the valuation of the intangible could not be supported and therefore as of June 30, 2008, the Company deemed the intangible asset to be totally impaired and wrote it off.

On September 26, 2008, the Company acquired H-Hybrid Technologies, Inc. (HHTI) in a tax-free stock for stock exchange. HHTI was incorporated in the State of Florida on September 18, 2008. As consideration for the agreement, the Company issued 100,000 shares of Series C Convertible Preferred Stock to UTEK Corporation and 5,000,000 unregistered common shares to Hydrogen Technology Application, Inc. (HTA) in exchange for 100% of the issued and outstanding shares of HHTI and assignment of an exclusive technology license for the use of three patents and one patent applied for but not yet issued. The patents were acquired to complement and further assist our research and development efforts.

The acquisition of HHTI is considered to be a purchase of productive assets, per guidance of EITF 98-3, *Determining Whether a Non-monetary Transaction Involves the Receipt of Productive Assets or of a Business* as a result of the analysis of the inputs, processes and outputs and consideration of the total concentration of the fair value of the transferred

assets to the acquisition. Accordingly, no goodwill will be recognized on the purchase. The identifiable assets of HHTI include cash and assignment of an exclusive technology license for the use of three patents and one patent applied for but not yet issued.

[Link to Table of Contents](#)

WORLD ENERGY SOLUTIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Organization (continued):

The Series C Convertible Preferred Stock has no voting rights, no liquidation preferences and no dividend rights. The holder may convert the Series C Convertible Preferred Stock at any time into common stock prior to the sixty-month anniversary of the execution of the agreement. The 100,000 shares of Series C Convertible Preferred Stock is convertible into \$3,750,000 of our common shares, based on the average of the five-day closing price prior to the conversion. At any time after six months and before the sixty month anniversary of the execution of the agreement, the Company will have the right, at its sole discretion, to repurchase at an agreed upon percentage value, any outstanding shares of the Series C Convertible Preferred Stock. The outstanding shares of the Series C Convertible Preferred Stock shares may be repurchased within twelve months at 105% of the aforementioned conversion price; within thirteen and twenty-four months at 110% of the aforementioned conversion price; within twenty-five and thirty-six months at 115% of the aforementioned conversion price; and at anytime after thirty-six months at a 120% of the aforementioned conversion price.

The 5,000,000 unregistered common shares will be restricted for twelve months after the effective date. As of September 30, 2008, the 5,000,000 unregistered common shares had not been issued and a \$105,000 stock payable was recorded in stockholders' equity.

The Company valued the Series C Convertible Preferred Stock as-if converted into common shares at the date of acquisition since the preferred shares have no voting rights, dividend rights or liquidation preferences. Based on this methodology, the prior five-day average at the time of the agreement was \$0.094 per share, resulting in an assumed conversion of the Series C Preferred Stock into 39,893,617 unregistered common shares. Therefore, for valuation purposes, the consideration consisted of 44,893,617 common stock equivalent shares (39,893,617 converted shares of Series C Convertible Preferred Stock and 5,000,000 unregistered common shares). The indicated share value average was \$0.105 per share based on an average of the Company's stock price immediately before and after the transaction date. Based on SEC Rule 144 limitations, and the historical trading volume and the size of the block relative to the Company's total number of common stock equivalent shares outstanding, management determined that the market would be unable to absorb the block at the calculated price and that it was appropriate to deduct a discount from that price to reflect the lack of liquidity. Utilizing "dribble out" methodology over various assumed periods, management developed a range of potential discounts to reflect the lack of liquidity of the subject shares. Management believes a discount of 80% is appropriate given the facts and circumstances of this valuation. Thus, the resulting value for the consideration given for the assets acquired in this transaction is \$943,000.

The resulting \$943,000 consideration paid will be allocated to the assets acquired in this acquisition. The Company acquired \$125,000 in cash, a license for the exclusive use rights to three patents and one patent pending, and other potential intangible assets, if any. Management has not yet completed its valuation (including identification of potential intangible assets) to allow the segregation of the purchase price for the license for exclusive use of the patents and patent pending and other potential intangible assets, if any, at the date of this filing; therefore, the Company has recorded an asset entitled Intangible assets subject to allocation in the amount of \$818,000. Management expects to finalize the allocation of the \$818,000 by December 31, 2008.

Royalties to HTA will become due on a bi-annual basis based upon the net sales of any of the licensed products sold from the technology license. Royalties are to be paid within thirty days and are based on 3% of the net sales on the licensed products. No minimum royalties shall be required for the first twelve months after the effective date of the agreement; however each succeeding twelve months after the effective date of the agreement minimum annual royalties become due.

The minimum royalty due for the second through the fifth (September 2010 - 2013) anniversary of the executed agreement is \$20,000 and then thereafter the minimum royalty payment become \$50,000 per year. The minimum annual royalties are fully creditable against any actual earned royalties paid during the previous twelve month period. The minimum royalties are not refundable in any part and if any payment becomes delinquent it shall bear interest at an annual rate of one and one-half (1.5) percentage points above the prime rate quoted on the last day of said period by a designated major financial institution.

[Link to Table of Contents](#)

WORLD ENERGY SOLUTIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(2) Basis of Presentation:

The accompanying financial statements of WESI (the Company) have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10Q and Article 8 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal required adjustments) considered necessary for a fair presentation have been included.

The consolidated financial statements as of and for the nine months ended September 30, 2008 include the accounts of Pure Air Technologies, Inc. (incorporated August 7, 2006), Hydrogen Safe Technologies, Inc. (incorporated September 20, 2007), Advanced Alternative Energy, Inc. (incorporated May 20, 2008) and H-Hybrid Technologies, Inc. (incorporated September 18, 2008). Significant intercompany balances and transactions have been eliminated in consolidation.

Operating results for the three and nine month periods ended September 30, 2008, are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. For further information, refer to the financial statements and footnotes included in the Company's annual report of Form 10-KSB for the year ended December 31, 2007.

Net loss per common share is computed in accordance with the requirements of Statement of Financial Accounting Standards No. 128 (SFAS 128). SFAS 128 requires net loss per share information to be computed using a simple weighted average of common shares outstanding during the periods presented. Potentially dilutive options and preferred stock conversion were not included in the computation of dilutive net earnings per share as their effect would have been anti-dilutive. For the months ended September 30, 2008, a total of 88,589,078 options and a potential conversion of 95,839,078 convertible preferred shares were excluded from the computation.

(3) Inventory:

Inventory consists of the following:

	September 30,		December 31,
	2008		2007
Raw materials	\$ 52,464	\$	50,133
Finished goods	12,627		21,019
Purchased finished goods	28,324		29,365
	93,415		100,517
L e s s a l l o w a n c e f o r obsolescence	13,056		13,056
	\$ 80,359	\$	87,461

(4) Stock transactions and agreements:

The Company has commenced an offering of its common stock pursuant to and in reliance upon the exemption from registration provided by Securities and Exchange Commission Regulation S, promulgated under the Securities Act of 1933, as amended. The Company has authorized for sale up to sixty million (60,000,000) shares of its restricted common stock (the Shares) in the Regulation S offering (the Offering). The Shares are available for sale only to third parties who are not U.S. persons (as defined in Rule 902 of Regulation S).

The Company has engaged three separate entities to serve as its distribution managers for the Offering. The Company and the distribution managers have engaged two separate entities to serve as the escrow agent. The escrow agent will hold funds paid by buyers and disburse Company stock certificates to buyers who qualify as non-U.S. persons in a Regulation S placement and whose offers to purchase Shares are accepted by the Company.

[Link to Table of Contents](#)

WORLD ENERGY SOLUTIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(4) Stock transactions and agreements (continued):

The shares sold will be offered on the lower of the closing bid price for WESI stock as quoted on the NASDAQ Bulletin Board on the date prior to the trade date or the closing price of said shares minus an original offering discount of 15%. The Company will receive 27% of the proceeds from each accepted offer and the balance will be paid to the Distribution Manager (72%) and the Escrow Agent (1%). The agreements terminate on December 31, 2008 unless extended in writing by both parties. The agreements may also be terminated at any time with 21 days written notice by the Company.

During the nine months ended September 30, 2008, the Company issued a total of 33,318,312 shares of common stock in connection with the Regulation S stock offering resulting in proceeds of \$1,086,427 to the Company. The proceeds are net of \$3,009,861 of stock offering costs.

In the same nine month period, the Company sold and issued an additional 2,640,000 shares of common stock for \$296,030 cash.

On January 8, 2008, the Company donated 100,000 shares of stock to an organization. The stock was valued at the stock closing price on the date of the donation which was \$0.228 resulting in a total expense of \$22,800.

The Company recorded \$14,000 of contributed capital and related consulting expense to Hydrogen Safe Technologies, Inc. during the nine months ended September 30, 2008.

The Company issued a total of 1,923,077 unregistered common shares to UTEK as prepayment for consulting services to be provided related to comparative analysis of intellectual property developments. As of September 30, 2008, \$125,000 of these services had been expensed and the remaining prepaid balance was \$125,000.

On June 10, 2008, WESI acquired Advanced Alternative Energy, Inc. (AAEI) in a tax free stock for stock exchange. AAEI was incorporated in the State of Florida on May 20, 2008. As consideration for the agreement, the Company issued 100,000 shares of Series B Convertible Preferred Stock to UTEK Corporation in exchange for 100% of the issued and outstanding shares of AAEI, assignment of an exclusive technology license for the production and preparation of mechanically and electrochemically stable electrodes and transition metal oxide catalysts; prepaid consulting fees, for a technical consulting agreement related to the license, and \$200,000 cash.

The preferred shares may be converted by the holder at any time into common stock prior to the sixty month anniversary of the execution of the agreement into the value of \$3,500,000 of common shares of WESI, based on the average of the five day closing price prior to the conversion. At any time after six months and before the sixty month anniversary of the execution of the agreement, WESI will have the right, at its sole discretion, to repurchase at an agreed upon percentage value, any non-converted shares of the Series B Convertible Preferred Stock. The shares may be repurchased within twelve months at 105% of the original pro rata purchase price; within thirteen and twenty-four months at 110% of the original pro rata purchase price; within twenty-five and thirty-six months at 115% of the original pro rata purchase price; and at anytime after thirty-six months at 120% of the value of the original pro rata purchase price. The convertible preferred shares have no voting rights.

The acquisition of AAEI was considered to be a purchase of productive assets, per guidance of EITF 98-3, *Determining Whether a Non-monetary Transaction Involves the Receipt of Productive Assets or of a Business* as a result of the analysis of the inputs, processes and outputs and consideration of the total concentration of the fair value of the transferred assets to the acquisition. Accordingly, no goodwill was recognized on the purchase.

The intellectual rights were valued at \$3,264,000 at the time of the acquisition. While the Company anticipates further development of the related technology, as of June 30, 2008, the technology had not yet been tested on the market nor had there been any related sales. Estimation of future sales could not be determined as the technology is not ready to be introduced into the market place and knowledge of when or if the Company can fully develop the technology is not known. In addition, consideration of other similar technology entering the market prior to the Company can not be determined. Based on the above factors, the Company concluded that the valuation of the intangible could not be supported and therefore as of June 30, 2008, the Company deemed the intangible asset to be impaired and wrote it off.

[Link to Table of Contents](#)

WORLD ENERGY SOLUTIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(4) Stock transactions and agreements (continued):

On September 26, 2008, the Company acquired H-Hybrid Technologies, Inc. (HHTI) in a tax-free stock for stock exchange. HHTI was incorporated in the State of Florida on September 18, 2008. As consideration for the agreement, the Company issued 100,000 shares of Series C Convertible Preferred Stock to UTEK Corporation and 5,000,000 unregistered common shares to Hydrogen Technology Application, Inc. (HTA) in exchange for 100% of the issued and outstanding shares of HHTI and assignment of an exclusive technology license for the use of three patents and one patent applied for but not yet issued.

The acquisition of HHTI is considered to be a purchase of productive assets, per guidance of EITF 98-3, *Determining Whether a Non-monetary Transaction Involves the Receipt of Productive Assets or of a Business* as a result of the analysis of the inputs, processes and outputs and consideration of the total concentration of the fair value of the transferred assets to the acquisition. Accordingly, no goodwill will be recognized on the purchase. The identifiable assets of HHTI include cash and assignment of an exclusive technology license for the use of three patents and one patent applied for but not yet issued.

The Series C Convertible Preferred Stock has no voting rights, no liquidation preferences and no dividend rights. The holder may convert the Series C Convertible Preferred Stock at any time into common stock prior to the sixty-month anniversary of the execution of the agreement. The 100,000 shares of Series C Convertible Preferred Stock is convertible into \$3,750,000 of our common shares, based on the average of the five-day closing price prior to the conversion. At any time after six months and before the sixty month anniversary of the execution of the agreement, the Company will have the right, at its sole discretion, to repurchase at an agreed upon percentage value, any outstanding shares of the Series C Convertible Preferred Stock. The outstanding shares of the Series C Convertible Preferred Stock shares may be repurchased within twelve months at 105% of the aforementioned conversion price; within thirteen and twenty-four months at 110% of the aforementioned conversion price; within twenty-five and thirty-six months at 115% of the aforementioned conversion price; and at anytime after thirty-six months at a 120% of the aforementioned conversion price.

The 5,000,000 unregistered common shares will be restricted for twelve months after the effective date. As of September 30, 2008, the 5,000,000 unregistered common shares had not been issued and a \$105,000 stock payable was recorded in stockholders' equity.

The Company valued the Series C Convertible Preferred Stock as-if converted into common shares at the date of acquisition since the preferred shares have no voting rights, dividend rights or liquidation preferences. Based on this methodology, the prior five-day average at the time of the agreement was \$0.094 per share, resulting in an assumed conversion of the Series C Preferred Stock into 39,893,617 unregistered common shares. Therefore, for valuation purposes, the consideration consisted of 44,893,617 common stock equivalent shares (39,893,617 converted shares of Series C Convertible Preferred Stock and 5,000,000 unregistered common shares). The indicated share value average was \$0.105 per share based on an average of the Company's stock price immediately before and after the transaction date. Based on SEC Rule 144 limitations, and the historical trading volume and the size of the block relative to the Company's total number of common stock equivalent shares outstanding, management determined that the market would be unable to absorb the block at the calculated price and that it was appropriate to deduct a discount from that price to reflect the lack of liquidity. Utilizing "dribble out" methodology over various assumed periods, management developed a range of potential discounts to reflect the lack of liquidity of the subject shares. Management believes a discount of 80% is appropriate given the facts and circumstances of this valuation. Thus, the resulting value for the consideration given for the assets acquired in this transaction is \$943,000.

The resulting \$943,000 consideration paid will be allocated to the assets acquired in this acquisition. The Company acquired \$125,000 in cash, a license for the exclusive use rights to three patents and one patent pending, and other potential intangible assets, if any. Management has not yet completed its valuation (including identification of potential intangible assets) to allow the segregation of the purchase price for the license for exclusive use of the patents and patent pending and other potential intangible assets, if any, at the date of this filing; therefore, the Company has recorded an asset entitled "Intangible assets subject to allocation" in the amount of \$818,000. Management expects to finalize the allocation of the \$818,000 by December 31, 2008.

[Link to Table of Contents](#)

WORLD ENERGY SOLUTIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(4) Stock transactions and agreements (continued):

Royalties will become due to HTA on a bi-annual basis based upon the net sales of any of the licensed products sold from the technology license. Royalties are to be paid within thirty days and are based on 3% of the net sales on the licensed products. No minimum royalties shall be required for the first twelve months after the effective date of the agreement; however each succeeding twelve months after the effective date of the agreement minimum annual royalties become due.

The minimum royalty due for the second through the fifth (September 2010 – 2013) anniversary of the executed agreement is \$20,000 and then thereafter the minimum royalty payment becomes \$50,000 per year. The minimum annual royalties are fully creditable against any actual earned royalties paid during the previous twelve month period. The minimum royalties are not refundable in any part and if any payment becomes delinquent it shall bear interest at an annual rate of one and one-half (1.5) percentage points above the prime rate quoted on the last day of said period by a designated major financial institution.

During the year ended December 31, 2007 the Company issued 3,112,600 shares of common stock for \$778,170 cash. A total of 428,000 common shares were issued for services totaling \$323,825.

During the year ended December 31, 2007, the Company issued 650,000 stock options to a director of the Company for consulting services valued at approximately \$182,836 and two significant shareholders contributed capital to the Company in the form of 1,210,000 shares of common stock, which were used as incentive to certain consultants and employees. This contributed capital was valued as an expense to the Company in the year ended December 31, 2007 in the amount of \$355,600.

Additionally as of December 31, 2007, the Company issued a total of 7,500,000 common shares in exchange for 100% of the issued and outstanding shares of Hydrogen Safe Technologies, Inc. (HSTI). A total of 100,000 convertible preferred shares which had been issued during the year ended December 31, 2006 for the acquisition of 100% of the issued and outstanding shares of Pure Air Technologies, Inc. (PATI), and the related accrued dividends were converted during 2007 into a total of 8,437,500 common shares.

In July 2007, the Company cancelled a total of 2,799,551 common shares pursuant to litigation with certain consultants whose services had previously been paid in common shares. The Company had sought to recover damages and obtain cancellation of shares of its common stock which had been issued for service that had not been fully rendered.

During the nine months ended September 30, 2008 and the year ended December 31, 2007, the Company issued rights to purchase stock in the amount of 1,074,000 and 1,250,000 shares, respectively. The exercise price ranges from \$0.10 to \$0.50 per share and the options can be exercised for a period of three years.

(5) Related party activities:

The Company leases their corporate office facility from their Chief Operation Officer and Director. The lease expires in October 2009. Rent expense related to this lease for the nine and three months ended September 30, 2008 was \$25,038 and \$8,346, respectively.

The Company has a month to month consulting agreement for investor services with a Director of the Company. As of the nine months ended September 30, 2008, the company had expensed approximately \$45,000 for these services.

During the nine months ended September 30, 2008, the Company paid in full two loan obligations to the President of the Company. Both loans accrued interest at 9%. Interest expense as of September 30, 2008, includes \$1,620 related to these loans.

During the nine months ended September 30, 2008, the Company entered into an agreement with UTEK for services to be rendered related to comparative analysis of intellectual property developments. As payment for these services the company issued 1,923,077 unregistered common shares which were recorded as a prepayment for the services to be rendered. As of September 30, 2008, approximately 50% of the services had been provided and \$125,000 had been recognized as expense.

[Link to Table of Contents](#)

WORLD ENERGY SOLUTIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(5) Related party activities (continued):

During the nine months ended September 30, 2008, the Company entered into two separate acquisition agreements with UTEK for the purchase of productive assets per the guidance of EITF 98-3, *Determining Whether a Non-monetary Transaction Involves the Receipt of Productive Assets or of a Business*. In exchange for each of these acquisitions (Advance Alternative Energy, Inc. and H-Hybrid Technologies, Inc.), the Company issued 100,000 shares (total of 200,000 shares) of Convertible Preferred Stock. Additionally with the HHTI acquisition, the Company also incurred a liability as of September 30, 2008 for the issuance of 5,000,000 unregistered common shares, restricted for twelve months after the effective date. (Refer to Footnotes 1 and 4)

During the nine months ended September 30, 2007, the Company entered into an acquisition agreement with UTEK for the purchase of productive assets per the guidance of EITF 98-3, *Determining Whether a Non-monetary Transaction Involves the Receipt of Productive Assets or of a Business*. In exchange, for the acquisition of Hydrogen Safe Technologies, Inc., the Company issued 7,500,000 unregistered shares of common stock to UTEK. (Refer to Footnotes 1 and 4)

(6) Consulting & Employment Agreements:

During the nine months ended September 30, 2008, the Company entered into an employment agreement with their Chief Operating Officer. The agreement provides a base salary of \$10,000 per month and other Company benefits as defined within the Company's employee handbook. The agreement does not have an expiration date.

The Company entered into a two year consulting agreement on April 7, 2008 for consulting services to be rendered in the area of design, manufacturing, sales marketing and distribution of surge protection. As compensation, the consultant is to be paid \$65,000 annually as base compensation and various defined levels of commission percentages will be paid based on the type of sales generated. The consultant will be reimbursed for any approved job related expenses and will report directly to the Chief Operation Officer.

(7) Income taxes:

The provision for federal and state income taxes for the nine month period ended September 30, 2008 and 2007 are as follows:

	September 30, 2008	September 30, 2007
Current	\$ -	\$ -
Deferred	-	-
Total Provision for Income Taxes	\$ -	\$ -

As of September 30, 2008, the Company has available unused consolidated income tax net operating loss (NOL) carryforwards for federal purposes of approximately \$17.5 million that may be used against future taxable income and if not utilized, will expire by the end of 2025.

[Link to Table of Contents](#)

WORLD ENERGY SOLUTIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(7) Income taxes (continued):

Deferred income taxes reflect the net tax effects of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities are as follows:

Deferred tax assets:	
Net operating loss carry forwards	\$ 6,598,672
Other	16,628
Total deferred tax assets	\$ 6,615,300
Deferred tax liabilities:	
Book basis of property and equipment in excess of tax basis	\$ 11,600
Total deferred tax liabilities	\$ 11,600
Net deferred tax asset before valuation allowance	\$ 6,603,700
Valuation allowance	(6,603,700)
Net deferred tax asset	\$ -

The Company has recorded a 100% valuation allowance against the net deferred tax asset at September 30, 2008 due to the uncertainty of its ultimate realization. As time passes, management will be able to better assess the amount of tax benefit it will realize from using the net deferred tax asset resulting from the loss carry forwards.

The change in the valuation allowance is as follows:

September 30, 2008	\$ 6,603,700
December 31, 2007	5,977,600
	\$ 626,100

C h a n g e i n v a l u a t i o n
a l l o w a n c e

Income taxes for the nine month periods ended September 30, 2008 and 2007 differ from the amounts computed by applying the effective income tax rate of 34.0% to income (loss) before income taxes as a result of the following:

	September 30, 2008	September 30, 2007
Expected provision (benefit)	\$ (1,682,557)	\$ (1,862,190)
Effect of:		
State income taxes net of federal benefits	(59,800)	(77,380)
Non-deductible (income) expense	1,122,448	1,137,418
Other, net	(6,191)	(0)
Change in valuation allowances	626,100	802,152
	\$ -	\$ -

(8) Commitment and Contingencies:

Going concern:

As reflected in the Statement of Operations, the Company has had recurring losses and negative cash flows from operations. These factors are an indication that that the Company may not be able to continue as a going concern. To continue as a going concern, the Company will need to raise additional capital, borrow funds, or generate more revenues from current product sales and new product sales associated with the business plan implementation. If current cash flow is not sufficient to cover planned operations, management believes it can raise additional capital from private placements, borrow funds from its officers, and delay certain expenditures to continue as a going concern during the next year.

[Link to Table of Contents](#)

WORLD ENERGY SOLUTIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(9) Recent Accounting Pronouncements:

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, in May, 2008. This statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of non-governmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). This guidance shall be effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board (PCAOB) amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*, which was approved by the SEC on September 16, 2008. The Company does not anticipate any material impact due to the adoption of this Standard.

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, in March, 2008. This standard has the same scope as Statement (SFAS) 133 and it is intended to enhance the current disclosure framework in Statement 133. This Statement requires that objectives for using derivative instruments be disclosed in terms of underlying risk and accounting designation. FAS 161, is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company has not entered into any derivative or hedging activities and therefore does not anticipate any material impact due to the adoption of this Standard.

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 160, an amendment of ARB No. 51, *Non-controlling Interest in Consolidated Financial Statements* an Amendment of ARB No. 51, effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2008; with

earlier adoption prohibited. This Statement amends ARB No. 51 to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a non-controlling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements and the Statement changes the way the consolidated statement is presented. The Company has no non-controlling interests in subsidiaries as of the current date and therefore does not anticipate any material impact from the adoption of this Statement.

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, in February, 2007. SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings (or another performance indicator if the business entity does not report earnings) at each subsequent reporting date. A not for profit organization shall report unrealized gains and losses in its statement of activities or similar statement. This guidance is effective for fiscal years beginning after November 15, 2007, provided the entity also elects to apply the provisions of SFAS Statement No. 157, *Fair Value Measures*. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007. The Company has not had a material impact to its financial statements from the adoption of SFAS No. 159.

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*. SFAS No. 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy. SFAS No. 157 was effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years, with early adoption permitted. On February 12, 2008, the effective date for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in financial statements on a recurring basis (at least annually) was delayed to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years for items within the scope of FSP FAS 157-2. The Company has not had any material impact to its financial statements from the adoption of SFAS No. 157 and does not anticipate any material impact upon the adoption of the extended deadline for nonfinancial assets and liabilities.

The Financial Accounting Standards Board issued EITF 07-03, *Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities* effective for fiscal years beginning after December 15, 2007, and interim periods within those fiscal years. Earlier application is not permitted. The guidance

[Link to Table of Contents](#)

WORLD ENERGY SOLUTIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(9) Recent Accounting Pronouncements (continued):

states that nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities should be deferred and capitalized. Such amounts should be recognized as an expense as the related goods are delivered or the related services are performed. If the goods or services are not expected to be delivered or rendered, then the capitalized advance payment should be charged to expense. There has been no impact to the Company from the adoption of EITF 07-3, as the Company has not entered into any non-refundable advance payments for goods or services received for use in future research and development activities as of the current date and the Company does not anticipate any material impact if any such arrangements are entered into at a future date.

(10) Subsequent Events

On September 18, 2008, the Board of Directors for the Company approved a Stock Grant and Option Plan (the Stock Plan) that provides for the issuance of up to 20 million shares of the Company's common stock to officers, directors, employees and consultants who render bona fide services to the Company. In connection with approval of the Stock Plan, the Board of Directors for the Company also has approved the filing of a registration statement with the Securities and Exchange Commission on Form S-8 to facilitate registration of the 20 million shares of common stock allocated for ultimate distribution by the Stock Plan. As of the date of this quarterly report, the registration statement has not yet been filed with the Securities and Exchange Commission.

[Link to Table of Contents](#)

Forward Looking Statements.

This Quarterly Report on Form 10-Q of World Energy Solutions, Inc. for the nine month period ended September 30, 2008 contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are intended to be covered by the safe harbors created thereby. To the extent that such statements are not recitations of historical fact, such statements constitute forward-looking statements which, by definition, involve risks and uncertainties. In particular, statements under the Sections; Management's Discussion and Analysis of Financial Condition and Results of Operations contain forward-looking statements. Where, in any forward-looking statement, the Company expresses an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the statement of expectation or belief will result or be achieved or accomplished.

The following are factors that could cause actual results or events to differ materially from those anticipated, and include but are not limited to: general economic, financial and business conditions; changes in and compliance with governmental regulations; changes in tax laws; and the costs and effects of legal proceedings.

You should not rely on forward-looking statements in this quarterly report. This quarterly report contains forward-looking statements that involve risks and uncertainties. We use words such as anticipates, believes, plans, expects, future, intends, and similar expressions to identify these forward-looking statements. Prospective investors should not place undue reliance on these forward-looking statements, which apply only as of the date of this quarterly report. Our actual results could differ materially from those anticipated in these forward-looking statements for many reasons, including the risks faced by World Energy Solutions, Inc. For example, a few of the uncertainties that could affect the accuracy of forward-looking statements include:

(a)

an abrupt economic change resulting in an unexpected downturn in demand;

(b)

governmental restrictions or excessive taxes on our products;

(c)

over-abundance of companies supplying energy conserving products and services;

(d)

economic resources to support the retail promotion of new products and services;

(e)

expansion plans, access to potential clients, and advances in technology; and

(f)

lack of working capital that could hinder the promotion and distribution of products and services to a broader based business and retail population.

Item 2. Management's Discussion and Analysis or Plan of Operation.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Introduction

World Energy Solutions, Inc. (referred to as the Company, WESI, New WESI, or in the first person notations of we, us, and our) began operations in 1984 under the corporate name of Professional Technical Systems, Inc. (PTS). PTS merged with WESI in November 2005 (the November 2005 Merger) with WESI being the legal acquirer but PTS being the accounting acquirer.

In August 2005, a Florida corporation named World Energy Solutions, Inc. (Old WESI) merged with Advanced 3D Ultrasound, Inc. (ADVU) with ADVU being the legal acquirer but Old WESI being the accounting acquirer (the August 2005 Merger). ADVU was the surviving entity of the August 2005 Merger and subsequently changed its name to WESI.

ADVU, Old WESI, and New WESI, prior to merging with PTS, had no revenues and minimal assets and activity. PTS has been the operating manufacturer before and after the merger.

WESI manufactures and sells transient voltage surge suppressors and related products and commercial and residential energy-saving equipment and applications to distributors and customers throughout the United States. Although this activity is expected to continue, the Company plans to implement a new business model to market a multi-product package to commercial, industrial and residential facilities in order to lower their overall cost of electric, gas and water of these facilities. The Company plans to market its package both by direct sales as well as a Shared Revenue Program (SRP) where the Company pays for the entire installation cost of the product package in return for payments

of a percentage of

[Link to Table of Contents](#)

the savings realized by the facilities using the product package. This new business model is expected to increase revenues and profits for the Company. The Company also intends to aggressively develop and market its H2O technology and its pure air technology.

Liquidity and Capital Resources

Our cash increased by \$165,207 to \$208,319 as of September 30, 2008 compared to \$43,112 as of December 31, 2007. The increase was due to cash received from Advanced Alternative Energy, Inc. (AAEI) and H-Hybrid Technologies Inc. (HHTI) after their acquisitions and also to cash received for the sale of the Company's common stock.

Cash used in operating activities for the nine months ended September 30, 2008 was greater than the cash used during the nine months ended in 2007 by approximately \$556,000. Gross profit from sales for the comparative nine months remained reasonably consistent. General and administrative expenses declined between the years for the nine months mainly due to a decrease in stock based consulting expense.

Sales decreased slightly for the three months ended September 30, 2008 compared to the three months ended September 30, 2007. During the same three month period, general and administrative expenses declined by approximately \$3,149,868 mainly due to a decrease in stock based consulting expense and the impairment expense recognized during the three months ended September 30, 2007 as compared to no impairment expense recognized during the three months ended September 30, 2008.

We do not believe our working capital is sufficient to implement the full spectrum of our planned, new energy-saving business model. Operations in 2008 and most of 2007 have been funded in large part through the sale of common stock and such funding will need to continue in order to allow us to implement our new business model. The Company has been successful in acquiring certain services through consulting agreements that are funded in large part through the issuance of common stock as noted above. However, the Company currently is offering its stock through private placement memorandums. The Company plans to raise additional capital through the sale of its common stock. The proceeds from the sale will be used to fund research and development consulting and professional fees, new job installs, other expenses and for working capital.

In October 2006, the Company acquired all of the outstanding shares of Pure Air Technologies, Inc. (PATI) from UTEK Corporation, a consultant of the Company. Previously PATI licensed certain technology from the University of Florida. PATI agreed to pay future patent costs related to the technology and to pay future royalties based on sales of products incorporating the technology. PATI also entered into a sponsored research agreement with the University

through the payment of \$231,000. The Company issued UTEK 100,000 of its convertible preferred stock in exchange for all of the outstanding shares of PATI, assignment of the technology license and the sponsored research agreement and \$300,000 cash. The Company believes any future costs related to the PATI technology can be funded through operations.

The terms of the Preferred Stock provided that after one year from the date it was issued it is convertible into shares of the Company's common stock at the election of UTEK. The conversion terms of the Agreement provide that the Preferred stock is convertible into the number of shares of the Company's common stock having a value of \$4,050,000 (the agreed value of the PATI technology), based upon the previous ten (10) day average closing bid price on the date of conversion. The Preferred Stock bears interest at the rate of five percent (5%) per annum, compounded quarterly, based on the \$4,050,000 agreed value of the PATI technology. On October 16, 2007 UTEK exercised its right to convert the Preferred Stock and consequently, the Company issued 8,437,500 shares of its restricted common stock to UTEK.

Pure Air Technologies, Inc. holds a worldwide exclusive license for a technology, developed by researchers at the University of Florida designed to help eliminate hazardous organic chemicals and microorganisms from indoor environments. The technology generates ozone within a building's heating, ventilating and air conditioning system, eliminating organic pollutants and microorganisms, and then converts the ozone to O₂ and water vapor.

On September 28, 2007, WESI acquired Hydrogen Safe Technologies, Inc. (HSTI) in a tax free stock for stock exchange. As consideration for the agreement, the Company issued 7,500,000 unregistered shares of common stock to UTEK Corporation in exchange for 100% of the issued and outstanding shares of HSTI, assignment of an exclusive technology license for the detection of hydrogen in vehicles, engines and / or water heaters using hydrogen and oxygen, prepaid consulting fees, related to a nine month consulting agreement, and \$450,000 cash.

[Link to Table of Contents](#)

The HSTI license agreement has 3% royalties due on net sales of the licensed product which can be netted against required minimum annual royalties. For the year 2008-2009, \$5,000 minimum royalties are due and payable January 31, 2010; for years 2009-2010, the minimum royalty is \$10,000; for years 2010-2011 the minimum royalty is \$15,000; after 2011 the minimum annual royalties are \$30,000. All minimum royalties are due and payable on January 31, of the following calendar year. The agreement can be terminated on thirty days notice if the Company fails to pay any due and payable royalties and the license would revert back to the licensor and all royalties and payments would cease.

On June 10, 2008, WESI acquired Advanced Alternative Energy, Inc. (AAEI) in a tax free stock for stock exchange. AAEI was incorporated in the State of Florida on May 20, 2008. As consideration for the agreement, the Company issued 100,000 shares of Series B Convertible Preferred Stock to UTEK Corporation in exchange for 100% of the issued and outstanding shares of AAEI, assignment of an exclusive technology license for the production and preparation of mechanically and electrochemically stable electrodes and transition metal oxide catalysts; prepaid consulting fees, for a technical consulting agreement related to the license, and \$200,000 cash.

The preferred shares may be converted by the holder at any time into common stock prior to the sixty month anniversary of the execution of the agreement into the value of \$3,500,000 of common shares of WESI, based on the average of the five day closing price prior to the conversion. At any time after six months and before the sixty month anniversary of the execution of the agreement, WESI will have the right, at its sole discretion, to repurchase at an agreed upon percentage value, any non-converted shares of the Series B Convertible Preferred Stock. The shares may be repurchased within twelve months at 105%; within thirteen and twenty-four months at 110%; within twenty-five and thirty-six months at 115%; and at anytime after thirty-six months at 120% of the value of the original pro rata purchase price. The convertible preferred shares have no voting rights.

Royalties will become due on a quarterly basis based upon the net sales of any of the licensed products sold from the technology license. Royalties are to be paid within ninety days and are based on 3% of the net sales on the licensed products. The royalty obligations will terminate on a country by country basis upon the expiration of the last to expire licensed patent covering the licensed product in each such country. Twelve months after the first anniversary of the execution of the license agreement, minimum annual royalties become due. The minimum royalty due for the second anniversary year of the executed agreement is \$5,000; for the third anniversary is \$10,000; for the fourth anniversary is \$15,000 and for the fifth anniversary thereafter until the end of the license term is \$30,000. AAEI will reimburse any patent costs incurred to maintain or control the patents related to the technology and licensed products.

On September 26, 2008, the Company acquired H-Hybrid Technologies, Inc. (HHTI) in a tax-free stock for stock exchange. HHTI was incorporated in the State of Florida on September 18, 2008. As consideration for the agreement, the Company issued 100,000 shares of Series C Convertible Preferred Stock to UTEK Corporation and 5,000,000 unregistered common shares to Hydrogen Technology Application, Inc. (HTA) in exchange for 100% of the issued and outstanding shares of HHTI and assignment of an exclusive technology license for the use of three patents and one patent applied for but not yet issued.

The acquisition of HHTI is considered to be a purchase of productive assets, per guidance of EITF 98-3, *Determining Whether a Non-monetary Transaction Involves the Receipt of Productive Assets or of a Business* as a result of the analysis of the inputs, processes and outputs and consideration of the total concentration of the fair value of the transferred assets to the acquisition. Accordingly, no goodwill will be recognized on the purchase. The identifiable assets of HHTI include cash and assignment of an exclusive technology license for the use of three patents and one patent applied for but not yet issued.

The Series C Convertible Preferred Stock has no voting rights, no liquidation preferences and no dividend rights. The holder may convert the Series C Convertible Preferred Stock at any time into common stock prior to the sixty-month anniversary of the execution of the agreement. The 100,000 shares of Series C Convertible Preferred Stock is convertible into \$3,750,000 of our common shares, based on the average of the five-day closing price prior to the conversion. At any time after six months and before the sixty month anniversary of the execution of the agreement, the Company will have the right, at its sole discretion, to repurchase at an agreed upon percentage value, any outstanding shares of the Series C Convertible Preferred Stock. The outstanding shares of the Series C Convertible Preferred Stock shares may be repurchased within twelve months at 105% of the aforementioned conversion price; within thirteen and twenty-four months at 110% of the aforementioned conversion price; within twenty-five and thirty-six months at 115% of the aforementioned conversion price; and at anytime after thirty-six months at a 120% of the aforementioned conversion price.

[Link to Table of Contents](#)

The 5,000,000 unregistered common shares will be restricted for twelve months after the effective date. As of September 30, 2008, the 5,000,000 unregistered common shares had not been issued and a \$105,000 stock payable was recorded in stockholders' equity.

The Company valued the Series C Convertible Preferred Stock as-if converted into common shares at the date of acquisition since the preferred shares have no voting rights, dividend rights or liquidation preferences. Based on this methodology, the prior five-day average at the time of the agreement was \$0.094 per share, resulting in an assumed conversion of the Series C Preferred Stock into 39,893,617 unregistered common shares. Therefore, for valuation purposes, the consideration consisted of 44,893,617 common stock equivalent shares (39,893,617 converted shares of Series C Convertible Preferred Stock and 5,000,000 unregistered common shares). The indicated share value average was \$0.105 per share based on an average of the Company's stock price immediately before and after the transaction date. Based on SEC Rule 144 limitations, and the historical trading volume and the size of the block relative to the Company's total number of common stock equivalent shares outstanding, management determined that the market would be unable to absorb the block at the calculated price and that it was appropriate to deduct a discount from that price to reflect the lack of liquidity. Utilizing "dribble out" methodology over various assumed periods, management developed a range of potential discounts to reflect the lack of liquidity of the subject shares. Management believes a discount of 80% is appropriate given the facts and circumstances of this valuation. Thus, the resulting value for the consideration given for the assets acquired in this transaction is \$943,000.

The resulting \$943,000 consideration paid will be allocated to the assets acquired in this acquisition. The Company acquired \$125,000 in cash, a license for the exclusive use rights to three patents and one patent pending, and other potential intangible assets, if any. Management has not yet completed its valuation (including identification of potential intangible assets) to allow the segregation of the purchase price for the license for exclusive use of the patents and patent pending and other potential intangible assets, if any, at the date of this filing; therefore, the Company has recorded an asset entitled "Intangible assets subject to allocation" in the amount of \$818,000. Management expects to finalize the allocation of the \$818,000 by December 31, 2008.

Royalties will become due to HTA on a bi-annual basis based upon the net sales of any of the licensed products sold from the technology license. Royalties are to be paid within thirty days and are based on 3% of the net sales on the licensed products. No minimum royalties shall be required for the first twelve months after the effective date of the agreement; however each succeeding twelve months after the effective date of the agreement minimum annual royalties become due.

The minimum royalty due for the second through the fifth (September 2010 - 2013) anniversary of the executed agreement is \$20,000 and then thereafter the minimum royalty payment become \$50,000 per year. The minimum annual royalties are fully creditable against any actual earned royalties paid during the previous twelve month period. The minimum royalties are not refundable in any part and if any payment becomes delinquent it shall bear interest at an annual rate of one and one-half (1.5) percentage points above the prime rate quoted on the last day of said period by a designated major financial institution.

Results of Operations and Critical Accounting Policies and Estimates

The results of operations are based on preparation of financial statements in conformity with accounting principles generally accepted in the United States. The preparation of financial statements requires management to select accounting policies for critical accounting areas as well as estimates and assumptions that affect the amounts reported in the financial statements. The Company's accounting policies are more fully described in Note 1 to Notes of Financial Statements found in the Company's annual financial statements filed with Form 10-KSB. We have identified the following accounting policy and related judgment as critical to understanding the results of our operations.

Valuation Allowance on Deferred Tax Assets

SFAS No. 109, *Accounting for Income Taxes* requires that deferred tax assets be evaluated for future realization and reduced by a valuation allowance to the extent we believe a portion will not be realized. We consider many factors when assessing the likelihood of future realization of our deferred tax assets including our recent cumulative earnings experience, expectations of future taxable income, the carry-forward periods available to us for tax reporting purposes and other relevant factors. At December 31, 2007, our net deferred tax assets are \$5,994,500, comprised principally of net operating

[Link to Table of Contents](#)

loss carry forwards (NOLs). Classification of deferred tax assets between current and long-term categories is based on the expected timing of realization, and the valuation allowance is allocated on a prorate basis.

We have reflected a valuation allowance of 100%, which resulted in an income tax benefit of zero. The range of possible judgments relating to the valuation of our deferred tax asset is very wide. If we had concluded that the weight of available evidence supported a decision that substantially all of our deferred tax assets may be realized, we would have a substantial income tax benefit in our statement of operations. Significant judgment is required in making this assessment, and it is very difficult to predict when, if ever, our assessment may conclude our deferred tax assets is realizable.

2008 Compared to 2007

Total product sales for the nine months ended September 30, 2008 were \$356,183 compared to 2007 sales of \$364,729 for the nine months then ended and \$132,900 compared to \$147,544 for three months ended, respectively. Gross profit on sales was approximately 48% and 51%, respectively for the nine months ended and approximately 50% as of September 30, 2008 as compared to approximately 58% for the three months ended September 30, 2007.

Our general and administrative expenses for the nine months ended September 30, 2008 decreased to \$4,935,244 from \$5,477,172 for the nine months ended September 30, 2007 and for the three months ended decreased to \$629,336 from \$3,779,204, respectively. The decrease as of September 30, 2008 is mostly related to a decrease in equity based consulting expense and no impairment expense recognized during the three months ended September 30, 2008.

As described in our Form 10-KSB for the period ending December 31, 2007, we expect significant increases in future consulting, salary and research and development expenses as a result of the implementation of our new business model.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are a Smaller Reporting Company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

Item 4. Controls and Procedures.

Item 4T. Controls and Procedures.

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed under the supervision of the Company's Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

As of December 31, 2007, under the supervision and with the participation of our management, we conducted an evaluation of the effectiveness of the design and operations of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934 and based on the criteria for effective internal control described in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that our financial disclosure controls and procedures were not effective so as to timely identify, correct and disclose information required to be included in our Securities and Exchange Commission (SEC) reports due to the Company's limited internal resources and lack of ability to have multiple levels of transaction review. Through the use of external consultants and the review process, management believes that the financial statements and other information presented herewith are materially correct.

The Company's management, including its Chief Executive Officer and Chief Financial Officer, does not expect that its disclosure controls and procedures, or its internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefit of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected.

[Link to Table of Contents](#)

This Quarterly Report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to temporary rules of the SEC that permit the Company to provide only management's report in this Quarterly Report.

This report on internal controls over financial reporting shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liabilities of that section, and is not incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

(b) Changes in Internal Controls.

There have been no changes in the Company's internal control over financial reporting during the period ended June 30, 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings.

None.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

During the nine month period ending September 30, 2008, the Company issued unregistered shares of its common stock as set forth in the table below.

Date	Name	Total Dollar Amount	Price per Share	Total Number of Shares
4/10/08	Robert Bloch	\$10,000	\$0.10	100,000
4/10/08	Phillip Gene Flood/Flood Living Trust	\$25,000	\$0.10	250,000
4/10/08	Robert Kratz	\$25,000	\$0.10	250,000
4/10/08	Gary Anderson	\$10,000	\$0.10	100,000
4/29/08	Patricia Turrell	\$10,000	\$0.10	100,000
4/29/08	Denno Family Ltd. Partnership	\$25,000	\$0.10	250,000
5/16/08	Sun Baker	\$15,000	\$0.10	150,000
7/7/08	Robert Bloch	\$30,000	\$0.10	300,000

All sales of shares of common stock identified in the table above were made pursuant to Section 4(2) of the 1933 Act. The proceeds of the sale of these securities are to provide operating capital and development costs.

In addition to the shares of common stock identified above, the Company has commenced an offering of its common stock pursuant to and in reliance upon the exemption from registration provided by Securities and Exchange Commission Regulation S, promulgated under the Securities Act of 1933, as amended. During the period covered by this report, the Company has sold 33,318,312 shares of its common stock in offshore transactions to one hundred thirty-nine (139) non-U.S. persons as such terms are defined and/or contemplated in Securities and Exchange Commission Regulation S. The Company is authorized to sell up to sixty million (60,000,000) shares of its restricted common stock (the Shares) in the Regulation S offering (the Offering). The Shares are available for sale only to third parties who are not U.S. persons (as defined in Rule 902 of Regulation S).

The Company has engaged three separate entities to serve as its distribution managers for the Offering. The Company and the distribution managers have engaged two separate entities to serve as the escrow agent. The escrow agent will hold funds paid by buyers and disburse Company stock certificates to buyers who qualify as non-U.S. persons in a Regulation S placement and whose offers to purchase Shares are accepted by the Company.

[Link to Table of Contents](#)

The shares sold will be offered on the lower of the closing bid price for WESI stock as quoted on the NASDAQ Bulletin Board on the date prior to the trade date or the closing price of said shares minus an original offering discount of 15%. The Company will receive 27% of the proceeds from each accepted offer and the balance will be paid to the Distribution Manager (72%) and the Escrow Agent (1%). The agreements terminate on December 31, 2008 unless extended in writing by both parties. The agreements may also be terminated at any time with 21 days written notice by the Company.

During the nine months ended September 30, 2008, the Company issued a total of 33,318,312 shares of common stock in connection with the Regulation S stock offering resulting in proceeds of \$1,382,457 to the Company. The proceeds are net of \$4,096,288 of stock offering costs.

During the three months ended September 30, 2008, the Company issued a total of 15,661,602 shares of common stock in connection with the Regulation S stock offering, resulting in net proceeds of \$424,385 to the Company.

Item 3. Defaults Upon Senior Securities

NONE

Item 4. Submission of Matters to a Vote of Security Holders.

The Company is incorporating by reference herein the information set forth in its Information Statement Pursuant to Section 14(c) of the Securities and Exchange Act of 1934, as previously furnished to shareholders.

Item 5. Other Information.

NONE

Item 6. Exhibits

Exhibit Number and Description	Location Reference
(a) Financial Statements Filed Herewith	
(b) Exhibits required by Item 601, Regulation S-B:	
(3.0) Articles of Incorporation and Bylaws	
(3.1) Articles of Incorporation (as amended) See Note 1 (below)	
(3.2) Bylaws See Note 2 (below)	
(10.0) Material Contracts	
(10.1) Employment Agreement with Benjamin Croxton dated January 31, 2006	

See Note 3 (below)

(10.2)

Employment Agreement with Mike Prentice

dated January 31, 2006

See Note 3 (below)

(11.0)

Statement re: Computation of Per Share Earnings

See Consolidated Statements

of Operations

(31.0)

Certification of Chief Executive Officer and Chief

Financial Officer

Filed Herewith

(32.0)

Certification pursuant to 18 U.S.C. Section 1350,

as adopted pursuant to Section 906 of the

[Link to Table of Contents](#)

Sarbanes-Oxley Act of 2002

Filed Herewith

Exhibit Key

- Note 1 Incorporated by reference to the Company's quarterly report on Form 10-QSB filed with the Securities and Commission on August 14, 2007.
- Note 2 Incorporated by reference to the Company's registration statement on Form 10-SBA filed with the Securities and Exchange Commission on February 2, 1999.
- Note 3 Incorporated by reference to the Company's Form S-8 filed with the Securities and Exchange Commission on January 31, 2006.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WORLD ENERGY SOLUTIONS, INC.

Date: November 13, 2008

/s/ BENJAMIN C. CROXTON

BENJAMIN C. CROXTON,

Chief Executive Officer

Chief Financial Officer