

WORLD ENERGY SOLUTIONS, INC.

Form 10-Q

August 14, 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 June 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 \$.001 per share, outstanding as of August 1, 2008 was 75,225,005.

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Part I. Financial Information

Item 1. Financial Statements.

WORLD ENERGY SOLUTIONS, INC.

CONSOLIDATED BALANCE SHEETS

ASSETS

	June 30,	December 31,
	2008	2007
	(unaudited)	(audited)
Current assets		
Cash	\$ 269,552	\$ 43,112
Accounts receivable	57,394	28,441
Inventory, net	80,678	87,461
Prepaid expenses and other current assets	91,859	175,784
Total current assets	499,483	334,798
Property & equipment, net	142,905	165,196
Long term deposits	3,850	3,850
Due from related party	362	362
Intangibles, net	150,694	108,399
Total assets	\$ 797,294	\$ 612,605

LIABILITIES AND STOCKHOLDERS EQUITY

Current liabilities

Accounts payable	\$ 100,966	\$ 52,618
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Accrued expenses	418,097	370,666
Credit line	27,608	-
Advance payments from dealers and customers	15,989	16,352
Due to related party	-	50,000
Total current liabilities	562,660	489,636

Stockholders' equity

Preferred stock; \$.0001 par value; 100,000,000 shares authorized, series B, 100,000 and-0- shares issued, respectively	10	-
Common stock; \$.0001 par value; 750,000,000 shares authorized; 64,030,399 and 43,933,689 shares issued and outstanding	6,402	4,394
Paid-in capital	21,066,176	16,603,291
Accumulated deficit	(20,837,954)	(16,484,716)
Total stockholders' equity	234,634	122,969

Total Liabilities and Stockholders' Equity	\$	797,294	\$	612,605
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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		Six Months Ended	
	June 30,		June 30,	
	2008	2007	2008	2007
Net sales	\$ 137,511	\$ 117,775	\$ 223,305	\$ 217,185
Cost of goods sold	58,303	54,751	118,848	116,223
Gross profit	79,208	63,024	104,457	100,962
General and administrative expenses	488,304	757,009	942,827	1,639,165
Research and development	131,145	71,641	240,646	159,770
Loss from operations	(540,241)	(765,626)	(1,079,016)	(1,697,973)
Other income (expense)				
Interest income (expense)	(489)	1,138	(1,563)	1,138
Impairment loss	(3,264,000)	-	(3,264,000)	-
Loss on disposal of property & equipment	(8,658)	(850)	(8,658)	(850)
Total other income (expense)	(3,273,147)	288	(3,274,221)	288
Earnings (loss) before provision for Income taxes	(3,813,388)	(765,338)	(4,353,237)	(1,697,685)

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Provision for income taxes	-	-	-	-
Net loss	(3,813,388)	(765,338)	(4,353,237)	(1,697,685)
Preferred stock dividends	-	51,680	-	102,305
Net income (loss) available to common shareholders	\$ (3,813,388)	\$ (817,018)	\$ (4,353,237)	\$ (1,799,990)
Income (loss) per common share	\$ (0.07)	\$ (0.03)	\$ (0.09)	\$ (0.06)
Weighted average common shares outstanding	53,869,584	28,131,684	49,666,829	28,675,665

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

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WORLD ENERGY SOLUTIONS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30,

UNAUDITED

	2008	2007
Cash flows from operating activities		
Net loss	\$ (4,353,237)	\$ (1,697,685)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation & Amortization	35,504	12,638
Impairment loss	3,264,000	-
Loss on disposal	8,658	850
Stock based donation	22,800	-
Stock based consulting & compensation expense	14,000	1,011,011
(Increase) decrease in:		
Accounts receivable	(28,953)	(16,585)
Inventory	6,783	6,451
Prepaid expenses and other assets	67,240	183,855
Increase (decrease) in:		
Accounts payable	48,348	19,484
Accrued expenses	47,431	7,113
Advance payments from dealers & customers	(363)	-
Total adjustments	3,485,448	1,224,817
Net cash (used) in operating activities	(867,789)	(472,868)
Cash flows from investing activities		

Purchase of fixed assets	(39,340)	(1,100)
Proceeds from sale of fixed asset	26,171	200
Investment in subsidiary	200,000	-
Proceeds from loan receivable	1,688	-
Net cash provided by (used in) investing activities	188,519	(900)
Cash flows from financing activities		
Proceeds from issuance of common stock	\$ 928,102	\$ 608,160
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	(35,000)	-
Net cash provided by financing activities	905,710	608,160
Net increase in cash	226,440	134,392
Cash, beginning of period	43,112	88,400
Cash end of period	\$ 269,552	\$ 222,792
Supplemental disclosures of non-cash investing and financing activities:		
Common stock issued for services	\$ -	\$ 710,861

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WORLD ENERGY SOLUTIONS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30,
UNAUDITED

(continued)

	2008	2007
Amortization of prepaid expenses		300,150
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	3,300,000	
Increase in deferred consulting	16,566	-
Cash flow information:		
Cash paid for interest	\$ 1,670	\$ -
Cash paid for income taxes	\$ -	\$ -

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

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WORLD ENERGY SOLUTIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The information presented herein for the six months ended June 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 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 mechanically and electrochemically stable electrodes and transition metal oxide catalysts; prepaid consulting fees and \$200,000 cash.

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WORLD ENERGY SOLUTIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

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. 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 face 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.

(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 10-QSB and Item 310 (b) of Regulation S-B. 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 six months ended June 30, 2008 include the accounts of Pure Air Technologies, Inc. (incorporated August 7, 2006), Hydrogen Safe Technologies, Inc. (incorporated September 20, 2007) and Advanced Alternative Energy, Inc. (incorporated May 20, 2008). Significant intercompany balances and transactions have been eliminated in consolidation.

Operating results for the three and six month periods ended June 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.

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WORLD ENERGY SOLUTIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

(3) Inventory:

Inventory consists of the following at June 30, 2008, as compared to year-end 2007:

	December 31,	
	2008	2007
Raw materials	\$ 47,995	\$ 50,133
Finished goods	17,069	21,019
Purchased finished goods	28,670	29,365
	93,734	100,517
Less allowance for obsolescence	13,056	13,056
	\$ 80,678	\$ 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 seeks to sell up to twenty million (20,000,000) 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.

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 six months ended June 30, 2008, the Company issued a total of 17,656,710 shares of common stock in connection with the Regulation S stock offering resulting in proceeds of \$662,092 to the Company. The proceeds are net of \$1,786,834 of stock offering costs.

In the same six month period, the Company sold and issued an additional 2,340,000 shares of common stock for \$266,010 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 six months ended June 30, 2008.

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WORLD ENERGY SOLUTIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

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.

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 purchases.

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.

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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.

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 six months ended June 30, 2008 and the year ended December 31, 2007, the Company issued rights to purchase stock in the amount of 774,000 and 2,024,000 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.

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WORLD ENERGY SOLUTIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

(5) Related party activities:

The Company leases their corporate office facility from their Chief Operation Officer and Director. The lease expires in October 2009 and was executed at monthly rates and terms reflecting current market rates. Rent expense related to this lease for the six and three months ended June 30, 2008 was \$16,692 and \$8,355, respectively.

The Company has a month to month consulting agreement for investor services with a Director of the Company. As of June 30, 2008, the company has an accrued liability of \$13,500 for these services.

During the six months ended June 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 June 30, 2008, includes \$1,620 related to these loans.

(6) Consulting & Employment Agreements:

During the six months ended June 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 six month period ended June 30, 2008 and 2007 are as follows:

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

As of June 30, 2008, the Company has available unused consolidated income tax net operating loss (NOL) carryforwards for federal purposes of approximately \$16 million that may be used against future taxable income and if not utilized, will expire by the end of 2025.

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WORLD ENERGY SOLUTIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

(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	\$ 6,381,658
Other	13,342
Total deferred tax assets	\$ 6,395,000
Deferred tax liabilities:	
Book basis of property and equipment in excess of tax basis	\$ 11,200
Total deferred tax liabilities	\$ 11,200
Net deferred tax asset before valuation allowance	\$ 6,383,800
Valuation allowance	(6,383,800)
Net deferred tax asset	\$ -

The Company has recorded a 100% valuation allowance against the net deferred tax asset at June 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:

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June 30, 2008	\$ 6,383,800
December 31, 2007	5,977,600
Change in valuation allowance	\$ 406,200

Income taxes for the six month periods ended June 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:

	June 30, 2008	June 30, 2007
Expected provision (benefit)	\$ (1,480,101)	\$ (577,213)
Effect of:		
State income taxes net of federal benefits	(38,349)	(61,165)
Non-deductible (income) expense	1,120,908	4,317
Other, net	(8,658)	(0)
Change in valuation allowances	406,200	634,061
	\$ -	\$ -

(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 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

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WORLD ENERGY SOLUTIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

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.

(9) Recent Accounting Pronouncements

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 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years, with early adoption permitted. The Company does not expect the adoption of SFAS No. 157 to materially impact its financial statements.

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 is currently assessing the possible impact of the adoption of this Statement, but does not anticipate it to materially impact the financial statements.

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 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. The Company does not expect the adoption of this guidance to materially impact its financial statements.

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Forward Looking Statements.

This Quarterly Report on Form 10-Q of World Energy Solutions, Inc. for the six month period ended June 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)

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where the Company pays for the entire installation cost of the product package in return for payments of a percentage of 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 \$226,440 to \$269,552 as of June 30, 2008 compared to \$43,112 as of December 31, 2007. The increase was due to cash received from Advanced Alternative Energy, Inc. (AAEI) after the acquisition and also to cash received for the sale of the Company's common stock.

Cash used in operating activities for the six months ended June 30, 2008 was greater than the cash used during the six months ended in 2007 by approximately \$395,000. Gross profit from sales for the comparative six months remained reasonably consistent. General and administrative expenses declined between the years for the six months mainly due to a decrease in stock based consulting expense. The decrease in other income and expense between the years for the six months was mainly due to the impairment of the AAEI intangible asset during the six months ended June 30, 2008.

Sales increased slightly for the three months ended June 30, 2008 compared to the three months ended June 30, 2007. During the same three month period, general and administrative expenses declined by approximately \$275,034 mainly due to a decrease in stock based consulting expense.

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.

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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.

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 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 prorated 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

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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 six months ended June 30, 2008 were \$223,305 compared to 2007 sales of \$217,185 for the six months then ended and \$137,511 compared to \$117,775 for three months ended, respectively. Gross profit on sales was approximately 46% for both of the respective six months and approximately 57% as of June 30, 2008 as compared to approximately 53% for the three months ended June 30, 2007.

Our general and administrative expenses for the six months ended June 30, 2008 decreased to \$942,827 from \$1,639,000 for the six months ended June 30, 2007 and for the three months ended decreased to \$488,304 from \$757,009, respectively. The decrease as of June 30, 2008 is mostly related to a decrease in equity based consulting expense.

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.

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.

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

Date	Name	Total Dollar	Price	Total Number of Shares
		Amount	per Share	
4/10/08	Robert Bloch	\$10,000	\$0.10	100,000
4/10/08				

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	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

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 17,656,710 shares of its common stock in offshore transactions to twenty-four (24) non-U.S. persons as such terms are defined and/or contemplated in Securities and Exchange Commission Regulation S. The Company seeks to sell up to twenty million (20,000,000) 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.

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.

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During the six months ended June 30, 2008, the Company issued a total of 17,656,710 shares of common stock in connection with the Regulation S stock offering resulting in proceeds of \$662,091 to the Company. The proceeds are net of \$1,786,834 of stock offering costs.

During the three months ended June 30, 2008, the Company issued a total of 15,937,411 shares of common stock in connection with the Regulation S stock offering, resulting in net proceeds of \$557,671 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

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. |

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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: August 13, 2008

/s/ BENJAMIN C. CROXTON

BENJAMIN C. CROXTON,

Chief Executive Officer

Chief Financial Officer

