

WORLD ENERGY SOLUTIONS, INC.  
Form 10QSB  
November 14, 2007

**United States**

**Securities and Exchange Commission**

**Washington, D.C. 20549**

**Form 10-QSB**

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)

OF THE

SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2007.

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 31<sup>st</sup> Street North, St. Petersburg, Florida 33714**

*(Address of principal executive offices and Zip Code)*

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

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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. (x) Yes (\_\_\_) No

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

The number of shares of the issuer's common stock, par value \$.001 per share, outstanding as of November 5, 2007 was 43,793,684.

Transitional Small Business Disclosure Format (Check one): (\_\_\_) Yes (x) No



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**Part I. Financial Information****Item 1. Financial Statements.**

**WORLD ENERGY SOLUTIONS, INC.**  
**CONSOLIDATED BALANCE SHEETS**

ASSETS

	September 30,		December 31,
	2007		2006
	(unaudited)		(audited)
Current assets			
Cash	\$ 472,014	\$	88,400
Accounts receivable	75,709		56,121
Inventory, net	87,266		98,529
Prepaid expenses and other current assets	279,244		630,294
Total current assets	914,233		873,344
Property & equipment, net	168,856		67,142
Intangibles, net	111,865		61,660
Other assets	850		-
Total Assets	\$ 1,195,804	\$	1,002,146

LIABILITIES AND STOCKHOLDERS EQUITY

Current liabilities			
Accounts payable	\$ 63,033	\$	16,775
Accrued expenses	568,652		292,541
Advance payments from dealers and customers	15,862		16,047
Related Party Loan	50,000		-

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Total current liabilities	697,547	325,363
Stockholders' equity		
Preferred stock; \$.0001 par value; 100,000,000 shares authorized and 100,000 shares issued	10	10
Common stock; \$.0001 par value; 100,000,000 shares authorized; 35,366,189 and 27,255,140 shares issued and outstanding	3,535	2,724
Paid-in capital	16,387,641	10,937,020
Accumulated deficit	(15,892,929)	(10,262,971)
Total stockholders' equity	498,257	676,783
Total Liabilities and Stockholders' Equity	\$ 1,195,804	\$ 1,002,146

The Accompanying Notes are an Integral part of These Financial Statements



**WORLD ENERGY SOLUTIONS, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS****UNAUDITED**

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2007	2006	2007	2006 (restated)
Net sales	\$ 147,544	\$ 162,501	\$ 364,729	\$ 429,832
Cost of goods sold	62,694	66,367	178,912	201,829
Gross profit	\$ 84,850	\$ 96,134	\$ 185,817	\$ 228,003
Other General and administrative expenses	350,283	505,424	1,020,916	3,189,247
Consulting expense (income)	105,047	(693,688)	1,073,608	1,294,914
Earnings (loss) from operations	(370,480)	187,874	(1,908,707)	(4,256,158)
Other income (expense)				
Interest income (expense)	\$ (606)	\$ -	\$ 532	\$ (6,278)
Research and development (expense)	(76,074)	(48,262)	(235,815)	(106,211)
Impairment Loss	(3,332,650)	-	(3,332,650)	
Gain/(Loss) on disposal of property & equipment	\$ 462	\$ -	\$ (388)	\$ -
Total other income (expense)	\$ (3,408,868)	\$ (48,262)	\$ (3,568,321)	\$ (112,489)
Earnings (loss) before provision for Income taxes	(3,779,348)	236,136	(5,477,028)	(4,368,647)
	\$ -	\$ -	\$ -	\$ -

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Provision for income taxes

Net income (loss)	(3,779,348)	236,136	(5,477,028)	(4,368,647)
Preferred stock dividends	50,625	-	152,930	-
Net income (loss) available to common shareholders	\$ (3,829,973)	\$ 236,136	\$ (5,629,958)	\$ (4,368,647)
Income (loss) per common share	\$ (.13)	\$ (0.01)	\$ (.19)	\$ (0.14)
Weighted average common shares outstanding	30,485,855	34,334,403	29,276,334	29,712,339

The Accompanying Notes are an Integral part of These Financial Statements

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

**UNAUDITED**

	2007	2006 (restated)
Cash flows from operating activities		
Net loss	\$ (5,477,028)	\$ (4,368,647)
Adjustments to reconcile net loss to net cash used in operating activities:		
Impairment Loss	3,332,650	-
Depreciation & Amortization	25,514	12,283
Loss on disposal	588	-
Stock based consulting & compensation expense	1,115,601	3,675,836
(Increase) decrease in:		
Accounts receivable	(19,588)	(27,260)
Inventory	11,263	24,479
Prepaid expenses and other current assets	188,861	(82,706)
Increase (decrease) in:		
Accounts payable	46,258	5,462
Accrued expenses	2,181	(5,224)
Advance payments from dealers & customers	(185)	(3,378)
Total adjustments	4,703,143	3,599,489
Net cash (used) in operating activities	(773,885)	(769,158)
Cash flows from investing activities		
Purchase of equipment	(73,371)	(17,300)
Proceeds from sale of fixed asset	2,700	-
Cash received in acquisition	450,000	-

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Net cash provided by (used in)			
Investing activities		379,329	(17,300)
Cash flows from financing activities			
Proceeds from issuance of common stock	\$	778,150	\$ 794,800
Proceeds from purchase or option rights		20	(161,097)
Repayment of long-term debt		-	(68,685)
Net cash provided by financing activities		778,170	565,018
Net increase (decrease) in cash		383,614	(221,440)
Cash, beginning of period		88,400	240,194
Cash, end of period	\$	472,014	\$ 18,754
Supplemental disclosures of non-cash investing and financing activities:			
Common stock issued for services	\$	848,261	\$ 3,270,416

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

**UNAUDITED**

**(continued)**

	2007	2006 (restated)
Accrual of prepaid consulting	121,000	-
Debt issued for property and equipment	50,000	-
Common stock issued in acquisition of subsidiary	3,375,000	-
 Cash flow information:		
Cash paid for interest	\$ -	\$ 8,381
Cash paid for income taxes	\$ -	\$ -

The Accompanying Notes are an Integral Part of These Financial Statements

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**WORLD ENERGY SOLUTIONS, INC.**

**NOTES TO FINANCIAL STATEMENTS**

The information presented herein as of September 30, 2007, and for the three and nine months ended September 30, 2007, 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. Additionally, the Company agreed to increase its authorized common shares to 100,000,000 shares.

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 10,000 shares of preferred stock plus accrued dividends is convertible into 8,437,500 common stock.

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 for HSTI \$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 fully supported and therefore as of September 30, 2007, the Company deemed the intangible asset to be impaired and expensed it.

(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.

**WORLD ENERGY SOLUTIONS, INC.**

**NOTES TO FINANCIAL STATEMENTS**

(continued)

The consolidated financial statements as of and for the nine months ended September 30, 2007 include the accounts of Pure Air Technologies, Inc. (incorporated August 7, 2006) and Hydrogen Safe Technologies, inc. (incorporated September 20, 2007). Significant inter-company balances and transactions have been eliminated in consolidation.

Operating results for the three and nine month period ended September 30, 2007, are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. 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, 2006.

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.

(3) Inventory:

Inventory consists of the following at September 30, 2007, as compared to year-end 2006:

	<b>December 31,</b>	
	<b>2007</b>	<b>2006</b>
Raw Materials	\$ 59,188	\$ 67,719
Work-in-progress	-	1,252
Finished goods	11,371	13,090
Purchased finished goods	29,764	29,525
	100,323	111,586
Less allowance for obsolescence	13,057	13,057

\$ 87,266 \$ 98,529

(4) Stock Transactions and Agreements:

During the nine months ended September 30, 2007, the Company sold 3,022,600 shares of common stock for \$778,170.

In February 2007, the company issued 650,000 stock options to a director of the company for consulting services valued at approximately \$182,836.

In March 2007, a major shareholder of the Company sold 750,000 shares of his stock to a director and consultant to the company for a bargain price as compensation to them for their services. The Company has recorded the difference between the bargain price and the fair value of the shares as a contribution to capital by the major shareholder and an expense of the Company in the amount of \$172,425.

During the quarter ended June 30, 2007, the Company issued 268,000 shares of common stock for various services. The services to be provided by the agreements are for web site enhancement & development; advertising; and for consulting services related to investor relations valued at approximately \$75,400. During the same three month period, two significant shareholders contributed capital to the company in the form of 1,210,000 common shares that were issued as incentive to certain consultants and employees. The fair value of the shares were valued at the closing stock price on the dates of contribution ranging from \$0.28 to \$0.70 and recorded as a contribution to capital and an expense of the Company in the amount of \$355,600.

On April 16, 2007, the Company entered into an agreement to secure \$5,000,000 financing through a private placement of the Company's common stock. The agreement is effective for 180 days or until such financing has been achieved.



**WORLD ENERGY SOLUTIONS, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**(continued)**

As compensation for the agreement, the Company paid a \$15,000 sign on fee. A consultancy fee of 10% of the aggregate gross proceeds of the common stock purchased through introductions from the investor firm, plus 3% in non-accountable expenses, payable in cash shall be due at the time of the investor purchases.

Thirteen percent of the aggregate number of securities purchased by investors introduced by the investor firm shall be payable in warrants that are exercisable into the Company's common stock. The expiration date shall not be less than three years, unless warrants are issued as part of the offering, in which case the warrants granted to the investor firm shall have the same expiration date of the investor warrants. The warrant exercise price shall be the same price of the Company's common stock issued at the time of the offering, or if warrants are issued as part of the offering, then the exercise price shall be the same as those offered. As of September 30, 2007, no financing had been obtained through this agreement.

During May, 2007, the Company entered into an agreement for consulting services in connection with obtaining capital or debt financing in an aggregate amount of no less than \$3,000,000. In exchange for these services, the Company paid the consultant a non refundable fee of \$6,500 and also will pay certain costs and expenses incurred by the consultant related to his services to the Company. No individual cost or expense of \$100 or greater shall be incurred by the consultant without prior approval of the Company. As of September 30, 2007, no financing had been obtained from this agreement.

During the quarter ended September 30, 2007, the Company entered into consulting agreements for a total of 120,000 common shares valued at \$62,000.

The Company has amicably resolved and settled the litigation and appellate matters styled: *World Energy Solutions, Inc. v. David Weintraub, et al.*, No. 06-8968-CI-20 (Cir. Ct. Pinellas Cty.); *Rachel Steele v. World Energy Solutions, Inc.*, No. 07-2010-CI-020 (Cir. Ct. Pinellas Cty.); and, the related interlocutory appeal styled *David Weintraub v. World Energy Solutions, Inc., et al.*, No. 2D07-3560 (Fla. 2d DCA 2007). The parties to the Litigation, including the Company, David L. Weintraub, Rachel Steele, Daniel Witherspoon, III, Timothy Daley, Leslie Sands and Rajax, Inc. have all executed mutual releases regarding all claims in the Litigation and agreed that all such claims shall be dismissed with prejudice. The parties further agreed that they shall each bear their own attorneys' fees and costs incurred in the Litigation.

Pursuant to the Litigation, the Company sought to recover damages and obtain cancellation of shares of its common stock that had been issued to Daniel Witherspoon, III, Leslie Sands, Rajax, Inc. and Rachel Steele and her designees. In July 2007, the Company cancelled 4,449,551 shares of its common stock that had been issued in various amounts to Rajax, Inc., Daniel Witherspoon, III and Rachel Steele and her designees, respectively. In connection with the amicable resolution of the Litigation and exchange of mutual releases by the parties regarding all claims and threatened claims, the Company has agreed to issue 1,650,000 shares (the "Shares") of its unregistered common stock to

Rachel Steele. The Shares shall constitute restricted securities as such term is defined in Securities and Exchange Commission Rule 144 ( Rule 144 ) and each certificate representing the Shares shall bear a legend reflecting the restriction imposed by Rule 144.

On September 28, the Company entered into an agreement for a stock for stock acquisition of Hydrogen Safe Technologies, Inc. (footnote 1), whereby a total of 7,500,000 unregistered common shares were issued for the purchase.

#### (5) Restatements

During the audit of our financial statements, adjustments were made correcting the valuation of common stock shares issued during the first quarter of 2006, for consulting and compensation services to be provided over various terms. In addition, the company recorded an additional liability and adjusted the recorded expense related to an advertising agreement entered into during the first quarter 2006.

In January 2006, the Company entered into various consulting agreements and two employment agreements whereby common stock was issued for services. The valuation of the common stock at the time was valued at the stock closing price on February 1, 2006, versus the date of the execution of the agreements and the issuance of the stock which was in January 2006. This resulted in a \$.05 per share reduction in the valuation of the shares. The result was a reduction of \$106,250,

**WORLD ENERGY SOLUTIONS, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**(continued)**

which was reflected as a reduction in quarter one of compensation expense in the amount of \$60,000, consulting expense of \$35,000, prepaid expenses of \$11,250 and additional paid in capital of \$106,350.

During February 2006, the Company entered into an advertising agreement for a total payment of restricted common shares that equated to \$1,000,000. The issuance of these shares was to be paid as the \$500,000 equivalent of common shares upon execution of the agreement and the balance to be issued in equal share payments over the following ten consecutive calendar months. The Company had issued a total value of \$550,000 in common shares during the quarter ended March 31, 2006 and had expensed the entire payment. The Company has restated the accounting for this agreement to record the entire related liability in the first quarter and expense the amortization of the prepaid and deferred portion over the term of the agreement. The net effect for the nine months ended September 30, 2006 was to decrease expense \$166,667, and decrease prepaid and deferred expenses \$405,417.

The net effect of the above changes to the net income for the period ended September 30, 2006 was a \$261,667 decrease to the net loss and a reduction to the loss per common share from \$0.15 to \$0.14 or approximately \$.02 per share.

**(6) 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. Since early application is not permitted, the Company will assess the impact to the application of this guidance during the period in which it becomes effective, which for the Company will be in the year beginning January 2008.

(7) Cancellation of Common Stock

On July 13, 2007, the Company's Board of Directors executed a resolution concluding that shares of Company common stock previously issued to former consultants, Rachel Steele ( Steele ), Rajax, Inc. ( Rajax ) and Daniel Witherspoon III



( Witherspoon ), were procured by such individuals and entity through fraud, breach of contract and without tendering promised consideration. *See Note (8) regarding Litigation below.* The Company determined that in order to protect the integrity of its capital structure, its legitimate shareholders and the public market for its securities that it was appropriate to cancel the remaining shares held by such individuals and entity (a total of 4,449,551 shares). Accordingly, the Company published notice on Form 8-K that it cancelled the following Company stock certificates and shares represented thereby:

Certificate # 4139 (800,000 shares-Rajax, Inc.)

Certificate # 4144 (500,000 shares-Rachel Steele)

Certificate # 4145 (500,000 shares-Rachel Steele)

Certificate # 5065 (500,000 shares-Rachel Steele)

Certificate # 5066 (500,000 shares-Rachel Steele)

Certificate # 5067 (434,500 shares-Rachel Steele)

Certificate # 5122 (298,551 shares-Rachel Steele)

Certificate # 5162 (429,500 shares-Rachel Steele)

Certificate # 5197 (410,000 shares-Rachel Steele)

Certificate # 5220 (7,000 shares-Daniel Witherspoon III)

Certificate # 5226 (70,000 shares-Daniel Witherspoon III).

The Company advised Steele, Witherspoon and Rajax that the aforementioned Company stock certificates and the shares of Company common stock represented thereby are cancelled, are null and void and may not be transferred, sold or hypothecated by any person or entity and the Company will not honor any transfer request regarding the above referenced shares of its common stock.

(8) Commitment and Contingencies:

(a) Material trends and uncertainty:

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.

(b) Legal Proceedings

World Energy Solutions, Inc. ( WEGY or the Company ) previously commenced a lawsuit styled *World Energy Solutions, Inc. v. David Weintraub, et al.*, No. 06-8968-CI-20 (Cir. Ct. Pinellas Cty.) (the Weintraub Litigation ), against a Florida corporation and several individuals to recover damages and 4,794,551 shares of Company common stock (the Shares ) issued in connection with the execution of consulting agreements and promises to perform future services for the benefit of the Company. The Company is suing Rajax, Inc., its principal, Rachel Steele and Daniel Witherspoon, III, as well as David Weintraub ( Weintraub ), Timothy Daley ( Daley ) and Leslie Sands ( Sands ) and has alleged various claims including fraud in the inducement, conspiracy to defraud and breach of contract. The Company contended in the Weintraub Litigation that the recipients of the Shares have not given the consideration promised to the Company in exchange for such Shares.

The Company obtained clerk s defaults against defendants, Daley, Sands and Weintraub. The Court denied Weintraub s motion to vacate the default as well as Weintraub s motion for rehearing regarding the earlier motion to vacate. Weintraub thereafter filed an appeal to the Second District Court of Appeals (the Weintraub Appeal ) regarding the Court s refusal to vacate the default.

Pursuant to the Weintraub Litigation, the Company sought a judgment for damages and to rescind certain transactions involving the issuance of the Shares to Rajax, Inc., Rachel Steele and her designees (including Shares issued to Steele s children at Weintraub s request under the Uniform Gift to Minors Act), Daniel Witherspoon and Leslie Sands. The Company previously issued stop transfer instructions to its stock transfer agent regarding all of the Shares.

**WORLD ENERGY SOLUTIONS, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**(continued)**

On March 1, 2007, Rachel Steele filed a civil action against the Company, styled *Rachel Steele v. World Energy Solutions, Inc.*, No. 07-002010-CI-20 (Cir. Ct. Pinellas Cty.) (the Steele Litigation), wherein she sought an injunction to allow her to sell certain quantities of the Shares (restricted securities) in public sale transactions pursuant to Securities and Exchange Commission Rule 144. The Company had previously advised Rachel Steele through its litigation counsel that the Company does not believe that the proposed sale of its common stock complies with the requirements of SEC Rule 144. On March 13, 2007, the Circuit Court in and for Pinellas County, Florida heard arguments on Rachel Steele's Motion For Temporary Injunction. The Court ordered that Steele's civil action be consolidated with the Weintraub Litigation filed against her by the Company. The Court recognized that the Company's allegations of fraud are intertwined with issues relating to Steele's request for injunctive relief; that Steele's request for money damages is inconsistent with a claim for irreparable harm as required for injunctive relief; that additional time was needed for the parties to complete discovery; and accordingly, the Court declined to address the issues in Steele's motion at the hearing.

On November 5, 2007 the Company disclosed in a filing on Form 8-K that the Weintraub Litigation, the Steele Litigation and the Weintraub Appeal have been amicably resolved with all parties. The Company has amicably resolved and settled the litigation and appellate matters styled: *World Energy Solutions, Inc. v. David Weintraub, et al.*, No. 06-8968-CI-20 (Cir. Ct. Pinellas Cty.); *Rachel Steele v. World Energy Solutions, Inc.*, No. 07-2010-CI-020 (Cir. Ct. Pinellas Cty.); and, the related interlocutory appeal styled *David Weintraub v. World Energy Solutions, Inc., et al.*, No. 2D07-3560 (Fla. 2d DCA 2007), hereinafter collectively referred to as the Litigation. The parties to the Litigation, including the Company, David L. Weintraub, Rachel Steele, Daniel Witherspoon, III, Timothy Daley, Leslie Sands and Rajax, Inc. have all executed mutual releases regarding all claims in the Litigation and agreed that all such claims shall be dismissed with prejudice. The parties further agreed that they shall each bear their own attorneys fees and costs incurred in the Litigation.

Pursuant to the Litigation, the Company sought to recover damages and obtain cancellation of shares of its common stock that had been issued to Daniel Witherspoon, III, Leslie Sands, Rajax, Inc. and Rachel Steele and her designees. In July 2007, the Company cancelled 4,449,551 shares of its common stock that had been issued in various amounts to Rajax, Inc., Daniel Witherspoon, III and Rachel Steele and her designees, respectively. In connection with the amicable resolution of the Litigation and exchange of mutual releases by the parties regarding all claims and threatened claims, the Company has agreed to issue 1,650,000 shares (the Shares) of its unregistered common stock to Rachel Steele. The Shares shall constitute restricted securities as such term is defined in Securities and Exchange Commission Rule 144 (Rule 144) and each certificate representing the Shares shall bear a legend reflecting the restriction imposed by Rule 144.

**(9) Subsequent Events**

Subsequent to the quarter ended September 30, 2007, UTEK Corporation converted all of the 100,000 Series A convertible preferred shares that were issued with the acquisition of Pure Air Technologies, Inc. In addition, accrued dividends in the amount of \$202,500 were converted. A total of 8,437,500 common shares of the Company were issued for the conversions.

During October, the Company entered into a renewed Strategic Alliance agreement with a one year term. The same terms and conditions of the initial agreement were maintained except for an increase in the monthly payments.

The Company entered into a consulting agreement in October to have services rendered as needed to the Company. A non-refundable payment of \$8,000 was due upon execution of the agreement and an additional non-refundable \$4,000 will be paid thirty days following the execution of the agreement and a final non-refundable payment of \$4,000 will be due upon completion of the services.

## **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, or in the first person notations of we, us, and began operations in 1984 under the corporate name of Professional Technical Systems, Inc. (PTS). PTS merged with WESI in November 2005 with WESI being the legal acquirer but PTS being the accounting acquirer. Therefore the financial statements presented herein are those of WESI (formerly known as PTS).

In August 2005, WESI merged with Advanced 3D Ultrasounds, Inc. (ADVU) with ADVU being the legal acquirer but WESI being the accounting acquirer. ADVU changed its name to WESI.

ADVU and WESI prior to merging with PTS had no revenues and minimal assets and activity. PTS has been an 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 appliances 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. The Company plans to market its package both by direct sales well as a Shared Revenue Program (SRP) where the Company pays for the entire installation in return for a percentage of the realized savings. This new business model is expected to increase revenues and profits for the Company.

The Company also plans to acquire new technologies that complement is new business model such as the acquisition of Pure Air Technologies, Inc. discussed below.

On September 28, 2007, WESI acquired Hydrogen Safe Technologies, Inc. (HSTI) in a tax-free stock for stock exchange. The HSTI acquisition is discussed in more detail below.

#### **Liquidity and Capital Resources**

Our cash increased to approximately \$472,014 as of September 30, 2007 compared to \$88,400 as of December 31, 2006. This increase is due to the acquisition of HSTI and to the sale of common stock. Proceeds from the issuance of common stock have funded the cash used for operating activities.

The cash used in operating activities in 2007 was greater than the cash used in 2006 by approximately \$55,178. Gross profit from sales decreased slightly between the years. General and administrative expenses and consulting expenses decreased approximately \$2,389,637. Decreases in advertising expenses, and compensation expenses related to stock issuances during the nine months ended September 30, 2006 contributed to the decrease in expenses between the years.

We do not believe our working capital is sufficient to implement the full spectrum of our planned, new energy-saving business model. Operations in 2007 and most of 2006 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 a private placement memorandum. The Company plans to raise up to \$10,000,000 through this sale of 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 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.

After one year from the date of issuance of the Preferred Stock, it is convertible into shares of the Company's common stock at the election of UTEK. The Agreement provides 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 shall bear interest at the rate of five percent (5%) per annum, compounded quarterly, based on the \$4,050,000 agreed value of the PATI technology.

Subsequent to September 30, 2007, UTEK converted all 100,000 of the preferred stock and accrued dividends into 8,437,500 common shares of the Company.

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 O<sub>2</sub> 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.

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 Company recognizes an impairment that this transaction caused as reflected in our financial statements. The HSTI technology is state of the art and its final usage in the marketplace is yet to be determined.

## **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, 2006, our net deferred tax assets are \$4,958,400, 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 prorata 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.



## **2007 Compared to 2006**

Total product sales for 2007 were \$147,544 and \$364,729 compared to 2006 sales of \$162,501 and \$429,832 for the three and nine months then ended, respectively. Gross profit on sales was approximately 58% and 51% compared to 59% and 53% for the three and nine months ended September 30, 2007 and 2006 respectively. The gross profit for the three months ended has remained reasonably consistent between the periods. The increase during the nine months ended is attributable to slightly lower material costs.

Our general and administrative and consulting expenses for the three months ended September 30, 2007 increased to \$455,330 from (\$188,264) for the three months ended September 30, 2006. The negative expense related to 2006 was the result of a cancelled consulting agreement and adjustment of the related recognized expenses.

For the nine months ended September 30, 2007, our general and administrative and consulting expenses decreased to \$2,094,524 from \$4,484,161. The decrease was due to decreases in advertising expenses and stock issued for compensation.

We expect significant increases in future consulting, salary and research and development expenses as a result of the implementation of our new business model.

## **Forward-looking Statement**

All statements other than statements of historical fact in this report are forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995, and are based on management's current expectations of the Company's near term results, based on current information available and pertaining to the Company. The Company assumes no obligation to update publicly any forward-looking statements. Actual results may differ materially from those projected in the forward-looking statements.

## **Item 3. Controls and Procedures.**

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, as of June 30, 2007. 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.

There have been no changes in the Company's internal control over financial reporting during the quarter ended September 30, 2007 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.**

(a) World Energy Solutions, Inc. ( "WEGY" or the "Company" ) previously commenced a lawsuit styled *World Energy Solutions, Inc. v. David Weintraub, et al.*, No. 06-8968-CI-20 (Cir. Ct. Pinellas Cty.) (the "Weintraub Litigation" ), against a Florida corporation and several individuals to recover damages and 4,794,551 shares of Company common stock (the "Shares" ) issued in connection with the execution of consulting agreements and promises to perform future services for the benefit of the Company. The Company is suing Rajax, Inc., its principal, Rachel Steele and Daniel Witherspoon, III, as well as David Weintraub ( "Weintraub" ), Timothy Daley ( "Daley" ) and Leslie Sands ( "Sands" ) and has alleged various claims including fraud in the inducement, conspiracy to defraud and breach of contract. The Company contended in the Weintraub Litigation that the recipients of the Shares have not given the consideration promised to the Company in exchange for such Shares.

The Company obtained clerk's defaults against defendants, Daley, Sands and Weintraub. The Court denied Weintraub's motion to vacate the default as well as Weintraub's motion for rehearing regarding the earlier motion to vacate. Weintraub thereafter filed an appeal to the Second District Court of Appeals (the Weintraub Appeal) regarding the Court's refusal to vacate the default.

Pursuant to the Weintraub Litigation, the Company sought a judgment for damages and to rescind certain transactions involving the issuance of the Shares to Rajax, Inc., Rachel Steele and her designees (including Shares issued to Steele's children at Weintraub's request under the Uniform Gift to Minors Act), Daniel Witherspoon and Leslie Sands. The Company previously issued stop transfer instructions to its stock transfer agent regarding all of the Shares.

(b) On March 1, 2007, Rachel Steele filed a civil action against the Company, styled *Rachel Steele v. World Energy Solutions, Inc.*, No. 07-002010-CI-20 (Cir. Ct. Pinellas Cty.) (the Steele Litigation), wherein she sought an injunction to allow her to sell certain quantities of the Shares (restricted securities) in public sale transactions pursuant to Securities and Exchange Commission Rule 144. The Company had previously advised Rachel Steele through its litigation counsel that the Company does not believe that the proposed sale of its common stock complies with the requirements of SEC Rule 144. On March 13, 2007, the Circuit Court in and for Pinellas County, Florida heard arguments on Rachel Steele's Motion For Temporary Injunction. The Court ordered that Steele's civil action be consolidated with the Weintraub Litigation filed against her by the Company. The Court recognized that the Company's allegations of fraud are intertwined with issues relating to Steele's request for injunctive relief; that Steele's request for money damages is inconsistent with a claim for irreparable harm as required for injunctive relief; that additional time was needed for the parties to complete discovery; and accordingly, the Court declined to address the issues in Steele's motion at the hearing.

On November 5, 2007 the Company disclosed in a filing on Form 8-K that the Weintraub Litigation, the Steele Litigation and the Weintraub Appeal have been amicably resolved with all parties. The Company has amicably resolved and settled the litigation and appellate matters styled: *World Energy Solutions, Inc. v. David Weintraub, et al.*, No. 06-8968-CI-20 (Cir. Ct. Pinellas Cty.); *Rachel Steele v. World Energy Solutions, Inc.*, No. 07-2010-CI-020 (Cir. Ct. Pinellas Cty.); and, the related interlocutory appeal styled *David Weintraub v. World Energy Solutions, Inc., et al.*, No. 2D07-3560 (Fla. 2d DCA 2007). The parties to the Litigation, including the Company, David L. Weintraub, Rachel Steele, Daniel Witherspoon, III, Timothy Daley, Leslie Sands and Rajax, Inc. have all executed mutual releases regarding all claims in the Litigation and agreed that all such claims shall be dismissed with prejudice. The parties further agreed that they shall each bear their own attorneys' fees and costs incurred in the Litigation.

Pursuant to the Litigation, the Company sought to recover damages and obtain cancellation of shares of its common stock that had been issued to Daniel Witherspoon, III, Leslie Sands, Rajax, Inc. and Rachel Steele and her designees.

In July 2007, the Company cancelled 4,449,551 shares of its common stock that had been issued in various amounts to Rajax, Inc., Daniel Witherspoon, III and Rachel Steele and her designees, respectively. In connection with the amicable resolution of the Litigation and exchange of mutual releases by the parties regarding all claims and threatened claims, the Company has issued 1,650,000 shares (the Shares) of its unregistered common stock to Rachel Steele. The Shares shall constitute restricted securities as such term is defined in Securities and Exchange Commission Rule 144 (Rule 144) and each certificate representing the Shares shall bear a legend reflecting the restriction imposed by Rule 144.

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

During the three month period ending September 30, 2007, the Company issued unregistered shares of its common stock as set forth in the table below.

<b>Date</b>	<b>Name</b>	<b>Total Dollar Amount</b>	<b>Price per Share</b>	<b>Total Number of Shares</b>
7/09/07	Paul Bemis	\$ 25,000	\$ 0.25	100,000
7/09/07	Keith Kondo	\$ 25,000	\$ 0.25	100,000
7/09/07	Andrew Allen	\$ 25,000	\$ 0.25	100,000
7/09/07	David Halpren	\$ 25,000	\$ 0.25	100,000
7/09/07	Gary Anderson	\$ 25,000	\$ 0.25	100,000
7/09/07	Jerjis J. Deno, Gen. Ptnr.	\$ 25,000	\$ 0.25	100,000
7/09/07	Robert Bloch	\$ 35,000	\$ 0.25	140,000

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8/10/07	Timothy Minnehan	\$ 12,500	\$ 0.25	50,000
8/10/07	Stock PR, LLC	\$ 10,000	\$ 0.50	20,000
8/29/07	Thomas Runzo	\$ 52,000	\$ 0.52	100,000
8/24/07	Chester Kratz	\$ 25,000	\$ 0.25	100,000
8/24/07	Patricia Turrell	\$ 25,000	\$ 0.25	100,000
8/28/07	The Bineau Family Trust	\$ 2,500	\$ 0.25	10,000
8/28/07	The Bineau Family Trust	\$ 2,500	\$ 0.25	10,000
8/28/07	Robert Bloch	\$ 15,000	\$ 0.25	60,000
9/06/07	Flavis & Beverly Lazenby	\$ 37,500	\$ 0.25	150,000

All sales and the aforementioned issuance of common stock in exchange for services 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. The shares of common stock issued to Stock PR, LLC and Thomas Runzo are in exchange for consulting services valued at \$62,000.

### Conversion of Shares of Preferred Stock

On October 11, 2006, World Energy Solutions, Inc. (the Company) acquired Pure Air Technologies, Inc. (PATI), a subsidiary of UTEK Corporation (AMEX & LSE-AIM: UTK), in a tax-free stock-for-stock exchange. Pursuant to the Agreement and Plan of Acquisition (the Agreement), the Company issued 100,000 shares of its Series A Convertible Preferred Stock to UTEK Corporation in exchange for 100% of the issued and outstanding shares of Pure Air Technologies, Inc. The Preferred Stock issued in the exchange is restricted and may only be resold pursuant to the requirements of the Securities Act of 1933.

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.

### Item 3. Defaults Upon Senior Securities

NONE

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

NONE

**Item 5. Other Information.**

NONE

**Item 6. Exhibits**

<b>Exhibit Number and Description</b>	<b>Location Reference</b>
(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)

Filed Herewith

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(10.0) Material Contracts

(10.1)

Employment Agreement with Benjamin Croxton

dated January 31, 2006

See Note 1 (below)

(10.2)

Employment Agreement with Mike Prentice

dated January 31, 2006

See Note 1 (below)

(11.0)

Statement re: Computation of Per Share Earnings

Note 5 to

Financial Statements

(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 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 14, 2007

/s/ BENJAMIN C. CROXTON

BENJAMIN C. CROXTON,

Chief Executive Officer

Chief Financial Officer

