

Blue Earth, Inc.  
Form S-1/A  
October 26, 2012

As filed with the Securities and Exchange Commission on October 26, 2012

Registration No. 333-181420

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**AMENDMENT NO. 5**

**TO**

**FORM S-1**

**REGISTRATION STATEMENT**

**UNDER**

**THE SECURITIES ACT OF 1933**

**BLUE EARTH INC.**

*(Exact Name of Registrant as specified in its charter)*

**Nevada**  
*(State or other jurisdiction*  
  
*of incorporation or*  
*organization)*

**8700**  
*(Primary Standard*  
*Industrial*  
  
*Classification Code*  
*Number)*

**98-0531496**  
*(I.R.S. Employer*  
  
*Identification No.)*

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2298 Horizon Ridge Parkway, Suite 205

Henderson, NV 89052

Telephone: 702-263-1808

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*(Address and telephone number of principal executive offices)*

Dr. Johnny R. Thomas, CEO

Blue Earth, Inc.

2298 Horizon Ridge Parkway, Suite 205

Henderson, NV 89052

Telephone: 702-263-1808

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*(Name, address and telephone number of agent for service)*

***Copy to:***

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**Approximate Date of Proposed Sale to the Public:** As soon as practicable after the effective date of this registration statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>

(Do not check if a smaller reporting company)

## CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Shares to be Registered (1)	Proposed Maximum Aggregate Offering Price per Security	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Stock, par value \$.001, issuable upon				
exercise of warrants issued to investors Common Stock, par value \$.001 issued and issuable upon	3,285,000 shs	\$3.40(2)	\$ 11,169,000	\$ 1,279.97(3)
exercise of warrants issued to placement agents	57,500 shs	\$3.40(2)	\$195,500	\$22.41(3)
Class A Common Stock Purchase Warrants	5,927,616 wts(4)	(5)	(5)	(5)
Class A Common Stock Purchase Warrants	2,904,510 wts(6)	(5)	(5)	(5)
Common Stock, par value \$.001 issuable upon				
exercise of Class A dividend warrants	8,832,126 shs(7)	\$3.00	\$ 26,496,378	\$ 3,036.48
Common Stock, par value \$.001	500,000 shs(8)	\$1.74	\$870,000	\$92.48
Common Stock, \$.001 par value	600,000 shs(9)	\$1.39	\$834,000	\$95.58
Common Stock, \$.001 par value	60,000 shs(9)	\$1.39	\$83,400	\$9.51
Common Stock, \$.001 par value	509,533 shs(10)	\$1.19(11)	\$606,344	\$69.49
Common Stock \$.001 par value	348,903 shs(12)	\$1.19(11)	\$415,195	\$47.58
Common Stock, \$.001 par value	2,978,500 shs(13)	\$1.19(11)	\$ 3,544,415	\$406.19
Common Stock, \$.001 par value	2,830,520 shs(14)	\$1.19(11)	\$ 3,368,319	\$385.95
Common Stock, \$.001 par value	108,000 shs(15)	\$1.75	\$189,000	\$21.66
Common Stock, \$.001 par value	400,000 shs(16)	\$1.34	\$536,000	\$ 61.43
Common Stock, \$.001 par value	300,000 shs(17)	\$1.32	\$ 396,000	45.38
Common Stock, \$.001 par value	75,000 shs(18)	\$1.19(17)	\$ 89,250	\$ 10.22
Common Stock \$.001 par value	38,209 shs(19)	\$1.19(17)	\$ 45,469	\$ 6.64
Common Stock \$.001 par value	2,000,000 shs(20)	\$1.00	2,000,000	\$ 229.20(21)
Common Stock \$.001 par value	2,000,000 shs(21)	\$1.25	\$ 2,500,000	\$ 286.50(21)
Common Stock \$.001 par value	600,000 shs(22)	\$1.45(29)	\$ 870,000	\$ 118.67
	25,523,291			
<b>TOTAL</b>	shs	--	\$54,208,269	\$6,225.34(23)

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- (1) Pursuant to Rule 416(a) under the Securities Act of 1933 (the Act ), these shares include an indeterminate number of shares of Common Stock issuable as a result of stock splits, stock dividends, recapitalizations or similar events.
- (2) Estimated at \$3.40 per share, the average of the high and low prices of the common stock as reported on the OTC Bulletin Board on April 12, 2010 when the shares were registered, for the purpose of calculating the registration fee in accordance with Rule 457(g)(3) under the Act.
- (3) This amount was paid on April 15, 2010, upon the filing of Registration Statement (No. 333-166099).
- (4) These warrants were issued to all shareholders of record of the Registrant on December 31, 2010, on the basis of one warrant for each two shares of Common Stock then owned. The warrants will be distributed following the effective date of this registration statement.
- (5) Pursuant to Rule 457(g) under the Act no separate registration fee is required as the underlying common stock is being registered for distribution.
- (6) Of these warrants 1,489,250 were issued to purchasers of Series A Convertible Preferred Stock in our September 2011 private offering ( 2011 Series A Offering ) and 1,415,260 were issued to purchasers of Series B Convertible Preferred Stock in our March 2012 Private Offering ( 2012 Series B Offering ) each consisting of units consisting of \$10.00 face value Preferred Stock Convertible into 10 shares of Common Stock and warrants to purchase five shares of Common Stock at \$3.00 per share.
- (7) Pursuant to Rule 457(g) under the Act these shares are issuable upon payment of the \$3.00 per share exercise price of the Class A Warrant.
- (8) Shares of Common Stock issuable upon exercise of warrants issued to Liviakis Financial Communications, Inc. exercisable at \$1.74 per share under an agreement for investor relations services.
- (9) Shares of Common Stock issuable upon exercise of warrants issued to Liviakis Financial Communications, Inc. (600,000) and Michael Bayes (60,000) exercisable at \$1.39 per share under an amendment to an agreement for investor relations services.
- (10) Shares held by Jeff Gosselin and/or his designees pursuant to a conversion of debt to equity agreement with the Company dated April 17, 2012.
- (11) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(h)(1) and Rule 457(c) based upon the last sale price of the Registrant's Common Stock of \$1.19, as reported on the Over the Counter Bulletin Board as of May 10, 2012.
- (12) Represents 334,368 shares granted to two former consultants and four current consultants and their designees and 14,535 shares granted to the Registrant's attorneys for services rendered.
- (13) Represents shares of Common Stock issued upon conversion of Series A Convertible Preferred Stock issued in our 2011 Preferred Stock Offering at a conversion price of \$1.00 per share. Pursuant to Rule 416(b) under the Act, also includes an indeterminate number of shares of Common Stock issuable upon payment of 12% dividend on shares of Series A Convertible Preferred Stock.
- (14) Represents shares of Common Stock issuable upon conversion of Series B Convertible Preferred Stock issued in our Preferred Stock Offering at a conversion price of \$1.00 per share. Pursuant to Rule 416(b) under the Act, also includes an indeterminate number of shares of Common Stock issuable upon payment of 12% dividends on shares of Series B Convertible Preferred Stock.
- (15) Shares of Common Stock issuable upon exercise of placement agent warrants issued in connection with our Preferred Stock Offering at an exercise price of \$1.75 per share.
- (16) Shares of Common Stock issuable upon exercise of warrants issued on May 7, 2012, to a consultant exercisable at \$1.34 per share.
- (17) Shares of Common Stock issuable upon exercise of warrants issued on May 7, 2012, to a consultant exercisable at \$1.32 per share.
- (18) Shares of Common Stock issuable upon exercise of warrants issued in connection with a bridge loan on May 18, 2012, (25,000 warrants) and August 6, 2012 (50,000 warrants).
- (19) Shares issued to former chief financial officer of the Company in settlement of his termination from employment.
- (20) Represents shares of Common stock issuable upon the exercise of certain warrants issued to officers of the Company and their assignees.

- (21) This amount was paid on April 26, 2012, upon the filing of the Company's Registration Statement on Form S-8 (No. 333-181022).
- (22) Includes 500,000 shares issuable upon exercise of warrants and 100,000 restricted shares all issued in February 2011 to our Chairman of the Board.
- (23) Of this amount, \$4,387.78 was paid with the filing of this Registration Statement on May 14, 2012; \$515.70 was paid with the filing of the Company's Registration Statement on Form S-8 filed on April 26, 2012 and the remaining \$1,321.86 was paid as set forth in Note (3) above pursuant to Rule 457(p) under the Act.

**This Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the commission, acting pursuant to said Section 8(a), may determine.**

**SUBJECT TO COMPLETION, DATED OCTOBER 26, 2012**

**The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and we are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.**

**PRELIMINARY PROSPECTUS**

**25,523,291 Shares of Common Stock**

**8,832,126 Common Stock Purchase Warrants**

**Blue Earth, Inc.**

This prospectus relates to the sale by the selling stockholders of Blue Earth, Inc., as identified in this prospectus, of up to 8,832,126 common stock purchase warrants, and 25,523,291 shares of our common stock, which includes (i) an aggregate of 5,927,616 shares issuable upon the exercise of Class A warrants issued to all stockholders of record as of December 31, 2010, which will be distributed following the date of this Prospectus; (ii) an aggregate of 1,489,250 shares issuable upon the exercise of Class A warrants issued in the Company's September 2011 Series A Preferred Stock Offering ( "2011 Series A Preferred Stock Offering" ); (iii) an aggregate of 1,415,260 shares issuable upon exercise of Class A Warrants issued in the Company's March 2012 Series B Preferred Stock Offering ( "2012 Series B Preferred Stock Offering" ); (iv) 3,285,000 shares issuable upon the exercise of warrants issued in our 2009 private placement with an exercise price of \$2.00 per share; (v) 57,500 shares issued upon the exercise of placement agent warrants issued in the 2009 private placement with an exercise price of \$1.25 per share; (vi) an aggregate of 1,160,000 shares issuable upon the exercise of warrants issued to the Company's investor relations firm and its employee; (vii) 334,368 restricted shares issued to two former consultants and four current consultants and their designees for services rendered; (viii) 700,000 shares issuable upon exercise of warrants issued in May 2012 to two consultants; (ix) 2,978,500 shares issuable upon conversion of Series A Preferred Stock issued in the 2011 Preferred Stock Offering; (x) 2,830,520 shares issuable upon conversion of Series B Preferred Stock issued in the 2012 Preferred Stock Offering; (xi) 108,000 shares issuable upon exercise of placement agent warrants issued in our 2011 and 2012 Preferred Stock Offerings, (xii) 14,535 restricted shares issued to our attorneys in consideration of services rendered; (xiii) 509,533 restricted shares issued to a former owner of Xenergy, Inc.; (xiv) 38,209 restricted shares issued to settle a dispute with a former officer of the Company; (xv) up to 75,000 shares issuable upon exercise of bridge warrants issued in our May-August 2012 Bridge Financing; (xvi) an aggregate of 4,000,000 shares issuable upon exercise of warrants issued to officers and directors and their assignees for estate planning purposes and previously registered on

Form S-8 Registration Statement, and (xvii) 500,000 shares issuable upon exercise of warrants and 100,000 restricted shares issued to our Chairman of the Board. All of these shares of our common stock and the exercise of all warrants are being offered for resale by the selling stockholders.

**NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

The selling stockholders and any broker-dealers that participate in the distribution of the securities may be deemed to underwriters as that term is defined in Section 2(11) of the Securities Act of 1933, as amended. The last reported sale price of our common stock as quoted under the symbol "BBLU" on the OTC Bulletin Board on October 25, 2012 was \$1.34 per share.

**Investing in our common stock is highly speculative and involves a high degree of risk. You should carefully consider the risks and uncertainties described under the heading Risk Factors beginning on page 9 of this prospectus before making a decision to purchase our common stock.**

**The Date of this Prospectus is October \_\_\_\_, 2012**



The prices at which the selling stockholder may sell shares will be determined by the prevailing market price for the shares or in negotiated transactions. We will not receive any proceeds from the sale of these shares by the selling stockholders. However, we will receive proceeds from the exercise of the warrants if they are exercised for cash by the selling stockholders.

## ADDITIONAL INFORMATION

You should rely only on the information contained or incorporated by reference in this prospectus and in any accompanying prospectus supplement. No one has been authorized to provide you with different information. The shares are not being offered in any jurisdiction where the offer is not permitted. You should not assume that the information in this prospectus or any prospectus supplement is accurate as of any date other than the date on the front of such documents.

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## PROSPECTUS SUMMARY

*The following summary highlights information contained elsewhere in this prospectus. This summary may not contain all of the information that may be important to you. You should read this entire prospectus carefully, including the sections entitled Risk Factors and Management's Discussion and Analysis of Financial Condition and Results of Operations and our historical financial statements and related notes included elsewhere in this prospectus. In this prospectus, unless otherwise noted, the terms the Company, we, us, and our refer to Blue Earth, Inc., and its subsidiaries, Blue Earth Tech, Inc., Blue Earth Energy Management Services, Inc, Blue Earth Energy Management, Inc, Castrovilla, Inc., Xnergy, Inc., Blue Earth Finance, Inc., as well as Genesis Fluid Solutions Holdings, Inc., our former name.*

### The Company

#### Overview

Blue Earth, Inc. is engaged in a mergers and acquisition strategy in the clean-tech industry. Our primary focus is acquiring companies and innovative technologies that serve the multi billion dollar energy efficiency services and renewable energy market sectors. The targeted companies provide a variety of energy services that enable customers to reduce energy consumption, lower their generating capacity and maintenance costs and realize environmental benefits. The targeted technologies typically include various measures designed for a specific customer or facility in our target market of small commercial businesses and residences to improve the efficiency of building systems, such as refrigeration, lighting and heating, ventilation and air conditioning.

Effective January 1, 2011, Blue Earth acquired Castrovilla, Inc. based in Mountain View California which manufactures, sells and installs commercial refrigeration and freezer gaskets and sells and installs motors and controls to approximately 5,400 small commercial businesses. See Business - Castrovilla Acquisition below.

On September 7, 2011, Blue Earth acquired Xnergy, Inc., and its wholly owned subsidiary HVAC Controls & Specialties, Inc., a Carlsbad, California based energy services company. Simultaneously, the Company purchased ecoLegacy, LLC, which serves as a financing vehicle for Xnergy. Xnergy provides a broad range of comprehensive energy solutions including the specialized mechanical engineering, the design, construction and implementation of energy savings projects, energy conservation, energy infrastructure outsourcing, power generation and energy supply and risk management. Xnergy also provides comprehensive maintenance and service programs, including every aspect of heating, ventilation and air-conditioning (HVAC), mechanical systems for design-build to repair and retrofit services. See Business - Xnergy Acquisition below.

Blue Earth entered into a Purchase and Sale Agreement dated as of July 26, 2012, with White Horse Energy, LLC for the Company to acquire 100% of the issued and outstanding limited liability company interests in Waianae PV-02, LLC, a Hawaii limited liability company which is the owner of certain rights to construct an approximately 497

kilowatt photovoltaic solar energy system in Waianae, Hawaii. Construction is expected to begin in the third quarter of 2012 and is expected to be completed no later than the first quarter of 2013. On August 3, 2012, Blue Earth announced it acquired the exclusive right to construct seven different solar PV projects totaling approximately 3.5 megawatt DC in Hawaii. The projects are valued at approximately \$15 million and are located on the island of Oahu and are primarily ground mount solar systems See Business - Hawaii Solar Energy Acquisitions below.

Management also intends to accelerate introduction of the acquired technology/products by offering and installing them through energy management service companies, which have an established base of customers at the local, state, regional and national levels. In order to accelerate product introduction, management expects to enter into varying types of agreements with these energy management service companies, including acquisition agreements and/or joint venture agreements, as may be appropriate, for each company and geographic territory.

Management has also identified several energy management and energy management service companies that have been successfully operating in the residential and small commercial business segment of the energy efficiency sector. These energy service companies specialize in three categories that address small commercial businesses energy efficiency needs: *lighting* and *HVAC* . The targeted acquisition candidates currently provide energy efficiency retrofit services to the small commercial businesses space. Management believes that these companies are ideal candidates from which to build a nationwide distribution, installation and service network through a combination of joint venture/associate relationships and/or acquisitions.

### **Corporate Strategy**

Blue Earth, Inc. management will focus its mergers and acquisitions activities on opportunities with the following profile.

.  
Innovative and commercially proven technologies, which increase energy efficiency/water and wastewater, for the small commercial business segment and residential segment.

.  
Energy management and energy management service companies, which have an established customer base seeking growth capital to expand their capabilities, product offerings and substantially increase their revenues and operating profits.

.  
Energy service companies that provide turnkey energy solutions to public and private clients including EPC (Engineer/Procure/Construct), design build of cogeneration, alternative and renewable electric power plants for green buildings ; regular service and maintenance through long-term contracts and third party commissioning of mechanical and energy projects.

*Bundled Retrofits.* An important element of the M&A strategy is to acquire energy management service companies with an established customer base in each of the afore-mentioned categories. The customer base of each potential acquisition will present an opportunity to cross-sell bundled retrofits to the other acquired companies customer base. For example, when we acquire a company that primarily specializes in *refrigeration* , we will be in position to contact its customer base and offer to provide energy management services for *lighting* and *HVAC* .

Another important criteria is an acquisition candidate's existing relationship with utilities. We are actively seeking private companies that have successfully provided utility funded rebate programs as incentives to their customers to adopt energy efficiency measures that a particular utility based rebate program is offering.

We are targeting energy management companies that specialize in several aspects of utility run energy efficiency programs including: Program Development; Program Implementation; Program Management; Program Tracking; and Program Reporting as required by oversight agencies.

We intend to acquire innovative technologies and established, reputable energy management and energy management service companies, using restricted common stock; cash and/debt in combinations appropriate for each potential acquisition.

*Continue to Maintain Entrepreneurial Approach.* We will maintain an entrepreneurial approach toward our customers and remain flexible in designing projects tailored specifically to meet their needs.

*Expand Scope of Product and Service Offerings.* We plan to continue to expand our offerings by including new types of energy efficiency services, products and improvements to existing products based on technological advances in energy savings strategies, equipment and materials.

*Meet Market Demand for Cost-Effective, Environmentally-Friendly Solutions.* Through our energy efficiency measures and products, we enable customers to conserve energy and reduce emissions of carbon dioxide and other *pollutants*. We plan to continue to focus on providing sustainable energy solutions that will address the growing demand for products and services that create environmental benefits for customers.

## **Industry Overview**

The market for energy efficiency services has grown significantly, driven largely by rising and volatile energy prices, advances in energy efficiency and renewable energy technologies, governmental support for energy efficiency and renewable energy programs and growing customer awareness of energy and environmental issues. End-users, utilities and governmental agencies are increasingly viewing energy efficiency measures as a cost-effective solution for saving energy, renewing aging facilities and reducing harmful emissions.

The clean-tech industry is a multi-billion global industry comprising several market sectors as follows: energy efficiency, including green building; water and wastewater; recycling and waste; LED lighting; energy storage; alternative energies and renewables; batteries/storage; smart grid electrical distribution system; alternative transport; and various green business, research and financial services.

In August 2010, our Board of Directors elected to broaden the Company's focus in contrast to relying only on watering restoration and remediation, as described below under Corporate History. We will continue to capitalize on our past investments in the patented Rapid Dewatering System, through royalty agreements negotiated from the sale of the Company's wholly-owned subsidiary to a group of buyers, including a former officer and director.

## **Corporate History**

On October 30, 2009, the Company entered into an Agreement of Merger and Plan of Reorganization (the 2009 Merger) with Genesis Fluid Solutions, Ltd. (GFS), a privately held Colorado corporation and upon closing of the transaction GFS, as the surviving corporation, became a wholly-owned subsidiary of the Company which changed its name to Genesis and the Company succeeded to the business of GFS as its sole line of business. GFS began operations in 1994 and is engaged in the design and development of water restoration and water remediation technology and equipment for the environmental, mining and paper industries.

As of August 31, 2010, Genesis completed a Stock Purchase Agreement (the SPA) pursuant to which the Buyers who signed the SPA, including the then Chairman and Interim Chief Executive Officer of the Company, agreed to purchase from the Company on or before August 31, 2010, all of the issued and outstanding common stock of GFS then its

wholly-owned subsidiary (the GFS Spin-off ). GFS had not generated sufficient revenues or earnings as a result of its activities. See Certain Relationships and Related Transactions and Director Independence for the terms of the GSF Spin-Off.

Effective October 21, 2010, Genesis Fluid Solutions Holdings, Inc. ( Genesis ) an operating Delaware corporation formed on March 30, 2007 under the name Cherry Tankers, Inc. merged with and into Blue Earth Inc., a Nevada corporation formed on October 6, 2010, solely as a reincorporation and name change.

Our executive offices are located at 2298 Horizon Ridge Parkway, Suite 205, Henderson, NV 89052. Our telephone number is (702) 263-1808.



## The Offering

### Securities Offered Hereby

This prospectus relates to the sale by certain selling stockholders of up to 8,832,126 warrants and 25,523,291 shares of our common stock consisting of:

(i)

5,927,616 Class A warrants issued to all stockholders of record on December 31, 2010; 1,489,250 Class A warrants issued in our 2011 Series A Preferred Stock Offering; and 1,415,260 Class A warrants issued in our 2012 Series B Preferred Stock Offering;

(ii)

8,832,126 shares of our common stock issuable upon exercise of Class A warrants described above in (i);

(iii)

3,285,000 shares of our common stock issuable upon the exercise of warrants issued to investors in our 2009 Private Placement;

(iv)

57,500 shares of our common stock issued upon the exercise of PIPE warrants issued to the placement agents in our 2009 Private Placement;

(v)

1,160,000 shares of our common stock issuable upon exercise of warrants issued to our investor relations firm and its employee;

(vi)

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2,978,500 shares of our common stock issued upon conversion of Series A Preferred Stock issued in our 2011 Preferred Stock Offering;

(vii)

2,830,520 shares of our common stock issuable upon conversion of Series B Preferred Stock issued in our 2012 Preferred Stock Offering;

(viii)

108,000 shares of our Common Stock issuable upon exercise of warrants issued to our placement agents in our 2011 and 2012 Preferred Stock Offerings;

(ix)

50,000 shares issued to each of two former consultants for services rendered (aggregate of 100,000 shares); 14,535 shares issued to our attorneys in consideration of services rendered; 50,000, 15,000, 79,368 and 90,000 shares issued to four consultants and their designees; 38,209 shares issued to a former officer of the Company; 509,533 shares issued for insurance to a former owner of our Xenergy, Inc. subsidiary; and 100,000 shares issued to our Chairman of the Board;

(x)

700,000 shares of our Common Stock (400,000, 300,000) issuable upon exercise of warrants issued to two consultants;

(xi)

75,000 shares of our Common Stock issuable upon exercise of bridge warrants issued in our May-August 2012 Bridge Financing; and

(xii)

4,000,000 shares of our Common Stock issuable upon exercise of warrants issued to our officers and their assignees for estate planning purposes.



Offering price	Market price or privately negotiated prices.
Common stock outstanding before the offering	19,451,836 shares, \$.001 par value(1)
Warrants upon the effective date of this prospectus	19,825,376 (2)
Options outstanding	640,511
Common Stock Fully Diluted	45,726,743 shares after the exercise of all outstanding Warrants (19,825,376 shares), Options (640,511 shares) and Preferred Stock (5,809,020 shares)
Use of proceeds	We will not receive any proceeds from the sale of the common stock by the selling stockholders. However, we will receive the exercise price, upon exercise of all Warrants offered hereby except for any cashless exercises by the holders of 3,285,000 warrants issued in our private placement pursuant to a Private Placement Memorandum dated June 25, 2009, as amended (the 2009 Private Placement ). We expect to use the proceeds received from the exercise of the warrants, if any, for general working capital purposes and partial payment for potential acquisitions.
OTB Bulletin Board Symbol	BBLU
Risk Factors	You should carefully consider the information set forth in this prospectus and, in particular, the specific factors set forth in the Risk Factors section beginning on page 9 of this prospectus before deciding whether or not to invest in our common stock.

(1)

Represents the number of shares of our common stock outstanding as of October 19, 2012.

(2)

Includes: (i) 8,832,126 Class A Warrants to be outstanding on or after the date of this Prospectus; (ii) 3,285,000 Warrants issued in our 2009 Private Placement; and 57,500 Warrants issued to the placement agents for such offering; (iii) 5,400,000 Warrants issued to Management; (iv) 1,160,000 Warrants issued to our investor relations firm and one of its employees; (v) 700,000 warrants issued to two consultants; (vi) 215,750 Warrants issued to placement agents for our 2011-2012 Preferred Stock Offerings; (vii) 100,000 Warrants issued to a law firm; (viii) 75,000 bridge warrants issued in our 2012 Bridge Financing; however, excludes 8,832,126 shares of common stock issuable upon exercise of each of the Class B and Class C Warrants issuable upon exercise of Class A Warrants to be outstanding on or after the date of this Prospectus.



### Summary Financial Information

The summary financial information set forth below is derived from the more detailed audited and unaudited financial statements of the Company appearing elsewhere in this prospectus. This information should be read in conjunction with such financial statements, including the notes to such financial statements.

#### Statement of Operations Data:

	Six Months Ended June		Years Ended December 31,		
	30, <u>2012</u>	<u>2011</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Revenue	\$3,653,976	2,043,636	\$5,315,664	\$ -	\$ -
Cost of Sales	2,392,141	752,303	2,838,277	-	-
Gross profit	1,261,835	1,291,333	2,477,387	-	-
Total Operating Expenses	5,630,961	2,906,003	15,643,840	2,202,320	245,342
Change in Fair Value of Warranty Liability	369,416	64,199	(749,166)	483,441	21,960
Total Other Income (expense)	325,570	65,155	(852,533)	(468,130)	22,158
Loss from Continuing Operations	(4,043,556)	(1,549,515)	(14,018,986)	(2,670,450)	(223,184)
Net Loss from Discontinued Operations	--	--	-	(904,322)	(2,024,583)
Net Loss	(4,043,556)	(1,549,515)	\$(14,018,986)	(3,587,553)	\$(2,247,767)
Basic and Diluted (Loss) Per Share	\$(0.22)	\$(0.11)	\$(0.93)	\$(0.18)	\$(0.002)
Weighted Average Number of Shares Outstanding	18,523,071	13,504,978	15,109,401	15,201,303	(12,050,759)

#### Balance Sheet Data:

	June 30		December 31,	
	(Unaudited) <u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Cash and Cash Equivalents	\$138,606	\$527,108	\$3,900,096	\$4,758,852
Current Assets	2,130,911	2,510,801	3,938,135	4,758,852
Net Assets of Discontinued Operations	--	-	-	1,079,308
Total Assets	12,598,932	14,226,072	3,952,067	\$5,838,160
Warrant Derivative Liability	1,643,909	2,037,325	1,288,159	804,718
Total Current Liabilities	6,080,034	6,002,196	1,325,498	1,886,272
Additional Paid-In Capital	33,955,229	33,771,622	12,420,166	10,152,118
Accumulated Deficit	(28,195,478)	(23,913,795)	(9,805,452)	(6,217,899)
Stockholders Equity	5,778,702	7,244,538	2,626,569	3,951,888
Total Liabilities and Stockholders Equity	\$12,598,932	\$14,226,072	\$3,952,067	\$ 5,838,160



## WHERE YOU CAN FIND MORE INFORMATION

**We distribute annual reports to our stockholders, including financial statements examined and reported on by independent certified public accountants. Any or all reports and other documents we file with the SEC, as well as any or all of the documents incorporated by reference in this prospectus or the registration statement we filed with the SEC registering for resale the shares of our common stock being offered pursuant to this prospectus, are available at the SEC's website [www.sec.gov](http://www.sec.gov), as well as our website [www.blueearth.com](http://www.blueearth.com). If you do not have Internet access, requests for copies of such documents should be directed to Mr. John C. Francis, the Company's Vice President of Corporate Development and Investor Relations, at Blue Earth, Inc., 2298 Horizon Ridge Parkway, Suite 205, Henderson, NV 89052, Telephone (702) 263-1808; fax (702) 263-1824.**

We have filed a registration statement on Form S-1 with the SEC registering under the Securities Act the common stock that may be distributed under this prospectus. This prospectus, which is a part of such registration statement, does not include all of the information contained in the registration statement and its exhibits. For further information regarding us and our common stock, you should consult the registration statement and its exhibits.

Statements contained in this prospectus concerning the provisions of any documents are summaries of those documents, and we refer you to the documents filed with the SEC for more information. The registration statement and any of its amendments, including exhibits filed as a part of the registration statement or an amendment to the registration statement, are available for inspection and copying as described above.

## RISK FACTORS

*Investing in our common stock involves a high degree of risk. Prospective investors should carefully consider the risks described below, together with all of the other information included or referred to in this prospectus, before purchasing shares of our common stock. There are numerous and varied risks that may prevent us from achieving our goals. If any of these risks actually occurs, our business, financial condition or results of operations may be materially adversely affected. In such case, the trading price of our common stock could decline and investors in our common stock could lose all or part of their investment.*

### Risks Relating to Our Business



***Since we have limited operating history, it is difficult for potential investors to evaluate our business.***

We completed our initial acquisition as of January 1, 2011 and our second acquisition on September 7, 2011. Therefore, our limited operating history makes it difficult for potential investors to evaluate our business or prospective operations and your purchase of our securities. As an early stage company, we are subject to the risks inherent in the financing, expenditures, complications and delays inherent in a new business. Accordingly, our business and success faces risks from uncertainties faced by developing companies in a competitive environment. There can be no assurance that our efforts will be successful or that we will ultimately be able to attain profitability.

***We are dependent upon key personnel whose loss may adversely impact our business.***

We rely heavily on the expertise, experience and continued services of Dr. Johnny Thomas, our Chief Executive Officer and John Francis, our Vice President-Corporate Development and Investor Relations. Both officers are employed under employment contracts at will, and the loss of either of their services and the inability to replace them and/or attract or retain other key individuals, could materially adversely affect us. If either Dr. Thomas or Mr. Francis were to leave, we could face substantial difficulty in hiring a qualified successor and could experience a loss in productivity while any successor obtains the necessary training and experience. We do not have key man life insurance policies on our management.

***We may need additional financing to execute our business plan and fund operations, which additional financing may not be available on reasonable terms or at all.***

As of June 30, 2012, we had \$138,606 cash on hand. In view of our acquisition strategy we may not be able to execute our current business plan and fund business operations long enough to achieve profitability. Our ultimate success depends upon our ability to raise additional capital. We are pursuing sources of additional capital through various means, including joint venture projects and debt or equity financing. Future financing through equity investments is likely to be dilutive to existing stockholders. Also, the terms of securities we may issue in future capital transactions may be more favorable to new investors than our current investors. Newly issued securities may include preferences, superior voting rights, the issuance of warrants or other derivative securities, and the issuance of incentive awards under employee equity incentive plans, which may have additional dilutive effects. Further, we may incur substantial costs in pursuing future capital and/or financing, including investment banking fees, legal fees, accounting fees, printing and distribution expenses and other costs. We may also be required to recognize non-cash expenses in connection with certain securities we may issue, such as convertible notes and warrants, which will adversely impact our financial condition and results of operations. Our ability to obtain needed financing may be impaired by factors, including the condition of the economy and capital markets, both generally and specifically in our industry, and the fact that we are not profitable, which could impact the availability or cost of future financing. If the amount of capital we are able to raise from financing activities, together with our revenues from operations, is not sufficient to satisfy our capital needs, we may need to reduce our operations accordingly.

***Compliance with environmental laws could adversely affect our operating results.***

Costs of compliance with federal, state, local and other foreign existing and future environmental regulations could adversely affect our cash flow and profitability. We will be required to comply with numerous environmental laws and regulations and to obtain numerous governmental permits in connection with energy efficiency products, and we may incur significant additional costs to comply with these requirements. If we fail to comply with these requirements, we could be subject to civil or criminal liability, damages and fines. Existing environmental regulations could be revised or reinterpreted and new laws and regulations could be adopted or become applicable to us or our customers, and future changes in environmental laws and regulations could occur. These factors may impose additional expense on our operations.

In addition, private lawsuits or enforcement actions by federal, state, and/or foreign regulatory agencies may materially increase our costs. Certain environmental laws make us potentially liable on a joint and several basis for the remediation of contamination at or emanating from properties or facilities which we may acquire that arranged for the disposal of hazardous substances. Although we will seek to obtain indemnities against liabilities relating to historical contamination at the facilities we own or operate, we cannot provide any assurance that we will not incur liability relating to the remediation of contamination, including contamination we did not cause.

We may not be able to obtain or maintain, from time to time, all required environmental regulatory approvals. A delay in obtaining any required environmental regulatory approvals or failure to obtain and comply with them could adversely affect our business and operating results.

*We will need to increase the size of our organization, and we may experience difficulties in managing growth.*

We are a small company with three full-time employees at the parent level, as of the date of this prospectus. In addition to prospective employees hired from companies which we may acquire, we will need to expand our employee infrastructure for managerial, operational, financial and other resources. Future growth will impose significant added responsibilities on members of management, including the need to identify, recruit, maintain and integrate additional employees. Our future financial performance and our ability to commercialize our product candidates and to compete effectively will depend, in part, on our ability to manage any future growth effectively.

In order to manage our future growth, we will need to continue to improve our management, operational and financial controls and our reporting systems and procedures. All of these measures will require significant expenditures and will demand the attention of management. If we do not continue to enhance our management personnel and our operational and financial systems and controls in response to growth in our business, we could experience operating inefficiencies that could impair our competitive position and could increase our costs more than we had planned. If we are unable to manage growth effectively, our business, financial condition and operating results could be adversely affected.

***Our corporate strategy will not be successful if demand for energy efficiency and renewable energy solutions does not develop.***

We believe, and our corporate strategy assumes, that the market for energy efficiency and renewable energy solutions will continue to grow, that we will increase our penetration of this market and that our revenue from selling into this market will continue to increase with future acquisitions. If our expectations as to the size of this market and our ability to sell our products and services in this market are not correct, our corporate strategy will be unsuccessful and our business will be harmed.

***Certain projects we may undertake for our customers may require significant capital, which our customers or we may finance through third parties, and such financing may not be available to our customers or to us on favorable terms, if at all.***

Certain energy efficiency projects are typically financed by third parties. The significant disruptions in the credit and capital markets in the last several years have made it more difficult for customers to obtain financing on acceptable terms or, in some cases, at all. Any inability by us or our customers to raise the funds necessary to finance our projects, or any inability by us to obtain a revolving credit facility, could materially harm our business, financial condition and operating results.

***Our business may be affected by seasonal trends and construction cycles, and these trends and cycles could have an adverse effect on our operating results.***

We expect that our business will be subject to seasonal fluctuations and construction cycles, particularly in climates that experience colder weather during the winter months, such as the northern United States and Canada, or at educational institutions, where large projects are typically carried out during summer months when their facilities are unoccupied. In addition, government customers, many of which have fiscal years that do not coincide with ours, typically follow annual procurement cycles and appropriate funds on a fiscal-year basis even though contract performance may take more than one year. Further, government contracting cycles can be affected by the timing of, and delays in, the legislative process related to government programs and incentives that help drive demand for energy efficiency and renewable energy projects. As a result, our revenue and operating income in the third quarter is expected to be typically higher, and our revenue and operating income in the first quarter is expected to be typically lower, than in other quarters of the year. As a result of such fluctuations, we may occasionally experience declines in revenue or earnings as compared to the immediately preceding quarter, and comparisons of our operating results on a period-to-period basis may not be meaningful.

***Our business depends in part on federal, state and local government support for energy efficiency and renewable energy, and a decline in such support could harm our business.***

We depend, in part, on government legislation and policies that support energy efficiency and renewable energy projects and that enhance the economic feasibility of our energy efficiency services and small-scale renewable energy projects. The U.S. government and several states support potential customers' investments in energy efficiency and renewable energy through legislation and regulations that authorize and regulate the manner in which certain governmental entities do business with companies like us, encourage or subsidize governmental procurement of our services, provide regulatory, tax and other incentives to others to procure our services and provide us with tax and other incentives that reduce our costs or increase our revenue. Current market conditions have caused various state, local or federal incentive programs which help drive the economics for these projects to be unexpectedly depleted or substantially changed by the administrators.

For example, U.S. legislation in 1992 authorized federal agencies to enter into energy savings performance contracts (ESPCs), such as those which we may enter into with customers at a later date. In 2007, three years after the expiration of the original legislation, new ESPC legislation was enacted without an expiration provision, and in the same year, the President of the United States issued an executive order requiring federal agencies to set goals to reduce energy use and increase renewable energy sources and use. In addition, the American Recovery and Reinvestment Act of 2009 (ARRA) allocated \$67 billion to promote clean energy, energy efficiency and advanced vehicles. Additionally, the Emergency Economic Stabilization Act of 2008 instituted the 1603 cash grant program, which may provide cash in lieu of an investment tax credit for eligible renewable energy generation sources for which construction commences prior to the end of 2010 where the project is placed in service by various dates set out in the act. The Internal Revenue Code (the Code), currently provides production tax credits for the generation of electricity from wind projects and from LFG-fueled power projects, and an investment tax credit or grant in lieu of such tax credits for investments in LFG, wind, biomass and solar power generation projects. Various state and local governments have also implemented similar programs and incentives, including legislation authorizing the procurement of ESPCs.

Prospective customers frequently depend on these programs to help justify the costs associated with, and to finance, energy efficiency and renewable energy projects. If any of these incentives are adversely amended, eliminated or not extended beyond their current expiration dates, or if funding for these incentives is reduced, it could adversely affect our ability to obtain project commitments from new customers. A delay or failure by government agencies to administer, or make procurements under, these programs in a timely and efficient manner could have a material adverse effect on our potential customers' willingness to enter into project commitments with us.

Changes to tax, energy and environmental laws could reduce our prospective customers' incentives and mandates to purchase certain kinds of services that we may supply, and could thereby adversely affect our business, financial condition and operating results.

***A significant decline in the fiscal health of federal, state, provincial and local governments could reduce demand for our energy efficiency and renewable energy projects.***

Recent significant declines in the fiscal health of federal, state and local governmental entities may make it difficult for them to enter into contracts for our services or to obtain financing necessary to fund such contracts.

***Failure of third parties to manufacture quality products or provide reliable services in a timely manner could cause delays in the delivery of our services and completion of our projects, which could damage our reputation, have a negative impact on our relationships with our customers and adversely affect our growth.***

Our success depends on our ability to provide services and products in a timely manner, which, in part, depends on the ability of third parties to provide us with timely and reliable services and products, such as boilers, chillers, cogeneration systems, PV panels, lighting and other complex components. In providing our services we intend to rely on products that meet our design specifications and components manufactured and supplied by third parties, as well as on services performed by subcontractors.

Warranties provided by third-party suppliers and subcontractors typically limit any direct harm we might experience as a result of our relying on their products and services. However, there can be no assurance that a supplier or subcontractor will be willing or able to fulfill its contractual obligations and make necessary repairs or replace equipment. In addition, these warranties generally expire within one to five years or may be of limited scope or provide limited remedies. If we are unable to avail ourselves of warranty protection, we may incur liability to our customers or additional costs related to the affected products and components, including replacement and installation costs, which could have a material adverse effect on our business, financial condition and operating results.

Moreover, any delays, malfunctions, inefficiencies or interruptions in these products or services - even if covered by warranties - could adversely affect the quality and performance of our solutions. This could cause us to experience difficulty retaining current customers and attracting new customers, and could harm our brand, reputation and growth. In addition, any significant interruption or delay by our suppliers in the manufacture or delivery of products or services on which we depend could require us to expend considerable time, effort and expense to establish alternate sources for such products and services.

*We may need to assume responsibility under customer contracts for factors outside our control, including the risk that fuel prices will increase.*

We do not expect to take responsibility under our proposed contracts for a wide variety of factors outside our control. However, we may sometimes need to assume some level of risk and responsibility for certain factors - sometimes only to the extent that variations exceed specified thresholds particularly with contracts for renewable energy projects.

Although we intend to structure our contracts so that our obligation to supply a customer with electricity, for example, does not exceed the quantity produced by the production facility, in some circumstances we may commit to supply a customer with specified minimum quantities based on our projections of the facility's production capacity. In such circumstances, if we are unable to meet such commitments, we may be required to incur additional costs or face penalties. Despite measures to mitigate risks under these and other contracts, such steps may not be sufficient to avoid the need to incur increased costs to satisfy our commitments, and such costs could be material. Increased costs that we are unable to pass through to our customers could have a material adverse effect on our operating results.

***Our business will depend on experienced and skilled personnel, and if we are unable to attract and integrate skilled personnel, it will be more difficult for us to manage our business and complete projects.***

The success of our business will depend on the skill of our personnel. Accordingly, it is critical that we maintain, and continue to build, a highly experienced management team and specialized workforce, including engineers, project and construction management, and business development and sales professionals. In addition, our construction projects require a significant amount of trade labor resources, and other skilled workers, as well as certain specialty subcontractor skills.

Competition for personnel, particularly those with expertise in the energy services and renewable energy industries, is high, and identifying candidates with the appropriate qualifications can be costly and difficult. We may not be able to hire the necessary personnel to implement our business strategy given our anticipated hiring needs, or we may need to provide higher compensation or more training to our personnel than we currently anticipate.

In the event we are unable to attract, hire and retain the requisite personnel and subcontractors, we may experience delays in completing projects in accordance with project schedules and budgets, which may have an adverse effect on our financial results, harm our reputation and cause us to curtail our pursuit of new projects. Further, any increase in demand for personnel and specialty subcontractors may result in higher costs, causing us to exceed the budget on a project, which in turn may have an adverse effect on our business, financial condition and operating results and harm our relationships with our customers.

***We operate in a highly competitive industry, and our current or future competitors may be able to compete more effectively than we do, which could have a material adverse effect on our business, revenue, growth rates and market share.***

Our industry is highly competitive, with many companies of varying size and business models, many of which have their own proprietary technologies, compete for the same business as we do. Our competitors have longer operating histories and greater resources than us, and could focus their substantial financial resources to develop a competing business model, develop products or services that are more attractive to potential customers than what we offer or convince our potential customers that they should require financing arrangements that would be impractical for smaller companies to offer. Our competitors may also offer energy solutions at prices below cost, devote significant sales forces to compete with us or attempt to recruit our key personnel by increasing compensation, any of which could improve their competitive positions. Any of these competitive factors could make it more difficult for us to attract and retain customers, cause us to lower our prices in order to compete, and reduce our market share and revenue, any of which could have a material adverse effect on our financial condition and operating results. We can provide no assurance that we will continue to effectively compete against our current competitors or additional companies that may enter our markets.



In addition, we may also face competition based on technological developments that reduce demand for electricity, increase power supplies through existing infrastructure or that otherwise compete with our products and services. We also encounter competition in the form of potential customers electing to develop solutions or perform services internally rather than engaging an outside provider such as us.

*We may be unable to complete or operate our projects on a profitable basis or as we have committed to our customers.*

Development, installation and construction of energy efficiency and renewable energy projects, and operation of renewable energy projects, entails many risks, including:

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failure to receive critical components and equipment that meet our design specifications and can be delivered on schedule;

.

failure to obtain all necessary rights to land access and use;

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failure to receive quality and timely performance of third-party services;

.

increases in the cost of labor, equipment and commodities needed to construct or operate projects;

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permitting and other regulatory issues, license revocation and changes in legal requirements;

.

shortages of equipment or skilled labor;

unforeseen engineering problems;

.  
failure of a customer to accept or pay for renewable energy that we supply;

.  
weather interferences, catastrophic events including fires, explosions, earthquakes, droughts and acts of terrorism; and accidents involving personal injury or the loss of life;

.  
labor disputes and work stoppages;

.  
mishandling of hazardous substances and waste; and

.  
other events outside of our control.

Any of these factors could give rise to construction delays and construction and other costs in excess of our expectations. This could prevent us from completing construction of projects, cause defaults under financing agreements or under contracts that require completion of project construction by a certain time, cause projects to be unprofitable for us, or otherwise impair our business, financial condition and operating results.

***Provisions in government contracts may harm our business, financial condition and operating results.***

In the event that we are able to secure contracts with the federal government and its agencies, and with state and local governments, these contracts customarily contain provisions that give the government substantial rights and remedies, many of which are not typically found in commercial contracts, including provisions that allow the government to:

.  
terminate existing contracts, in whole or in part, for any reason or no reason;

·  
reduce or modify contracts or subcontracts;

·  
decline to award future contracts if actual or apparent organizational conflicts of interest are discovered, or to impose organizational conflict mitigation measures as a condition of eligibility for an award;

·  
suspend or debar the contractor from doing business with the government or a specific government agency; and

·  
pursue criminal or civil remedies under the False Claims Act, False Statements Act and similar remedy provisions unique to government contracting.

Generally, government contracts contain provisions permitting unilateral termination or modification, in whole or in part, at the government's convenience. Under general principles of government contracting law, if the government terminates a contract for convenience, the terminated company may recover only its incurred or committed costs, settlement expenses and profit on work completed prior to the termination. If the government terminates a contract for default, the defaulting company is entitled to recover costs incurred and associated profits on accepted items only and may be liable for excess costs incurred by the government in procuring undelivered items from another source. The termination payment is designed to compensate us for the cost of construction plus financing costs and profit on the work completed.

In ESPCs for governmental entities, the methodologies for computing energy savings may be less favorable than for non-governmental customers and may be modified during the contract period. In the event we enter into ESPCs, we may be liable for price reductions if the projected savings cannot be substantiated.

In addition to the right of the federal government to terminate its contracts with us, federal government contracts are conditioned upon the continuing approval by Congress of the necessary spending to honor such contracts. Congress often appropriates funds for a program on a September 30 fiscal-year basis even though contract performance may take more than one year. Consequently, at the beginning of many major governmental programs, contracts often may not be fully funded, and additional monies are then committed to the contract only if, as and when appropriations are made by Congress for future fiscal years. If one or more of our government contracts were terminated or reduced, or if

appropriations for the funding of one or more of our contracts is delayed or terminated, our business, financial condition and operating results could be adversely affected.

Government contracts normally contain additional terms and conditions that may increase our costs of doing business, reduce our profits and expose us to liability for failure to comply with these terms and conditions. These include, for example:

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specialized accounting systems unique to government contracting, which may include mandatory compliance with federal Cost Accounting Standards;

.  
mandatory financial audits and potential liability for adjustments in contract prices;

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public disclosure of contracts, which may include pricing information;

.  
mandatory socioeconomic compliance requirements, including small business promotion, labor, environmental and U.S. manufacturing requirements; and

.  
requirements for maintaining current facility and/or personnel security clearances to access certain government facilities or to maintain certain records, and related industrial security compliance requirements.

***We plan to expand our business in part through future acquisitions, but we may not be able to identify or complete suitable acquisitions.***

Acquisitions are a significant part of our growth strategy. We plan to use acquisitions of companies or technologies to expand our project skill-sets and capabilities, expand our geographic markets, add experienced management and increase our product and service offerings. However, we may be unable to implement this growth strategy if we cannot identify suitable acquisition candidates, reach agreement with acquisition targets on acceptable terms or arrange required financing for acquisitions on acceptable terms. In addition, the time and effort involved in attempting

to identify acquisition candidates and consummate acquisitions may divert members of our management from the operations of our company.

***Any future acquisitions that we may make could disrupt our business, cause dilution to our stockholders and harm our business, financial condition or operating results.***

If we are successful in consummating acquisitions, those acquisitions could subject us to a number of risks, including, but not limited to:

.

the purchase price we pay and/or unanticipated costs could significantly deplete our cash reserves or result in dilution to our existing stockholders;

.

we may find that the acquired company or technologies do not improve market position as planned;

.

we may have difficulty integrating the operations and personnel of the acquired company, as the combined operations will place significant demands on the Company's management, technical, financial and other resources;

.

key personnel and customers of the acquired company may terminate their relationships with the acquired company as a result of the acquisition;

.

we may experience additional financial and accounting challenges and complexities in areas such as tax planning and financial reporting;

.

we may assume or be held liable for risks and liabilities (including for environmental-related costs) as a result of our acquisitions, some of which we may not be able to discover during our due diligence or adequately adjust for in our acquisition arrangements;

our ongoing business and management's attention may be disrupted or diverted by transition or integration issues and the complexity of managing geographically or culturally diverse enterprises;

we may incur one-time write-offs or restructuring charges in connection with the acquisition;

we may acquire goodwill and other intangible assets that are subject to amortization or impairment tests, which could result in future charges to earnings; and



We may not be able to realize the cost savings or other financial benefits we anticipated.

We cannot assure you that we will successfully integrate or profitably manage any acquired business. In addition, we cannot assure you that, following any acquisition, our continued business will achieve sales levels, profitability, efficiencies or synergies that justify acquisition or that the acquisition will result in increased earnings for us in any future period. These factors could have a material adverse effect on our business, financial condition and operating results.

***Insurance and contractual protections may not always cover lost revenue, increased expenses or liquidated damages payments.***

Although we maintain insurance and intend to obtain warranties from suppliers, obligate subcontractors to meet certain performance levels and attempt, where feasible, to pass risks we cannot control to our customers, the proceeds of such insurance, warranties, performance guarantees or risk sharing arrangements may not be adequate to cover lost revenue, increased expenses or liquidated damages payments that may be required in the future.

***If the cost of energy generated by traditional sources does not increase, or if it decreases, demand for our services may decline.***

Decreases in the costs associated with traditional sources of energy, such as prices for commodities like coal, oil and natural gas, or electricity may reduce demand for energy efficiency and renewable energy solutions. Technological progress in traditional forms of electricity generation or the discovery of large new deposits of traditional fuels or international political developments, production and distribution policies of OPEC could reduce the cost of electricity generated from those sources and as a consequence reduce the demand for our solutions. Any of these developments could have a material adverse effect on our business, financial condition and operating results.

***Our activities and operations are subject to numerous health and safety laws and regulations, and if we violate such regulations, we could face penalties and fines.***

We are subject to numerous health and safety laws and regulations in each of the jurisdictions in which we will operate. These laws and regulations require us to obtain and maintain permits and approvals and implement health and safety programs and procedures to control risks associated with our projects. Compliance with those laws and regulations can require us to incur substantial costs. Moreover, if our compliance programs are not successful, we

could be subject to penalties or to revocation of our permits, which may require us to curtail or cease operations of the affected projects. Violations of laws, regulations and permit requirements may also result in criminal sanctions or injunctions.

Health and safety laws, regulations and permit requirements may change or become more stringent. Any such changes could require us to incur materially higher costs than we currently have. Our costs of complying with current and future health and safety laws, regulations and permit requirements, and any liabilities, fines or other sanctions resulting from violations of them, could adversely affect our business, financial condition and operating results.

***Credit facilities and debt instruments contain financial and operating restrictions that may limit our business activities and our access to credit.***

To the extent we finance any potential acquisitions with debt instruments, provisions in credit facilities and debt instruments will impose restrictions on our and certain of our subsidiaries' ability to, among other things:

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incur additional debt, or debt related to federal projects in excess of specified limits;

.  
pay cash dividends and make distributions;

.  
make certain investments and acquisitions;

.  
guarantee the indebtedness of others or our subsidiaries;

.  
redeem or repurchase capital stock;

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create liens;

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enter into transactions with affiliates;

engage in new lines of business;

sell, lease or transfer certain parts of our business or property;

enter into sale-leaseback arrangements; and

merge or consolidate.

These agreements will also contain other customary covenants, including covenants that require us to meet specified financial ratios and financial tests. We may not be able to comply with these covenants in the future. Our failure to comply with these covenants may result in the declaration of an event of default and cause us to be unable to borrow under our credit facilities and debt instruments. In addition to preventing additional borrowings under these agreements, an event of default, if not cured or waived, may result in the acceleration of the maturity of indebtedness outstanding under these agreements, which would require us to pay all amounts outstanding. If an event of default occurs, we may not be able to cure it within any applicable cure period, if at all. If the maturity of our indebtedness is accelerated, we may not have sufficient funds available for repayment or we may not have the ability to borrow or obtain sufficient funds to replace the accelerated indebtedness on terms acceptable to us or at all.

***If our subsidiaries default on their obligations under their debt instruments, we may need to make payments to lenders to prevent foreclosure on the collateral securing the debt.***

We have formed subsidiaries to own and operate acquired companies. These subsidiaries may incur various types of debt. This debt may be structured as non-recourse debt, which means it is repayable solely from the revenue of the subsidiary and is secured by such subsidiary's assets, and a pledge of our equity interests in such subsidiary. Although subsidiary debt is typically non-recourse to the Company, if a subsidiary of ours defaults on such obligations, then we may from time to time determine to provide financial support to the subsidiary in order to avoid the adverse consequences of a default. In the event a subsidiary defaults on its indebtedness, its creditors may foreclose on the collateral securing the indebtedness, which may result in our losing our ownership interest in the subsidiary. The loss of our ownership interest in a subsidiary or some or all of a subsidiary's assets could have a material adverse effect on

our business, financial condition and operating results.

***Difficult conditions in the global capital markets and the economy generally may materially adversely affect our business and results of operations, and we do not expect these conditions to improve in the near future.***

Our results of operations are materially affected by conditions in the global capital markets and the economy generally, both in the U.S. and elsewhere around the world. The stress experienced by global capital markets that began in the second half of 2007 continued and substantially increased during the third and fourth quarter of 2008 and is continuing. Recently, concerns over inflation, energy costs, geopolitical issues, the availability and cost of credit, the U.S. mortgage market, and a declining real estate market in the U.S. have contributed to increased volatility and diminished expectations for the economy and the markets going forward. These factors, combined with volatile oil prices, declining business and consumer confidence and increased unemployment, have precipitated an economic slowdown and a global recession. Domestic and international equity markets have been experiencing heightened volatility and turmoil. These events and the continuing market upheavals may have an adverse effect on our business. In the event of extreme prolonged market events, such as the global credit crisis, we could incur significant losses.

***We may be exposed to product liability risks.***

The Company's operations may expose it to potential product liability risks that are inherent in the sale of energy efficiency products. There can be no assurance that product liability claims will not be asserted against the Company.

We plan to have product liability insurance covering sales of any prospective products which we believe will be adequate to cover any product liability exposure we may have. However, product liability insurance is expensive and we may be unable to obtain sufficient insurance coverage at a reasonable cost to protect us against losses. An individual may bring a product liability claim against us if one of our products causes, or is claimed to have caused, an injury or is found to be unsuitable for consumer use. Any product liability claim brought against us, with or without merit, could result in:

liabilities that substantially exceed our product liability insurance, which we would then be required to pay from other sources, if available;

.  
an increase of our product liability insurance rates or the inability to maintain insurance coverage in the future on acceptable terms, or at all;

.  
damage to our reputation and the reputation of our products, resulting in lower sales;

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regulatory investigations that could require costly recalls or product modifications;

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litigation costs; and

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the diversion of management's attention from managing our business.

A successful product liability claim or series of claims brought against the Company could have a material adverse effect on the Company's business, financial condition and results of operations.

***We may be sued by third parties who claim that our prospective products infringe on their intellectual property rights.***

We may be exposed to future litigation by third parties based on claims that our prospective products or activities infringe on the intellectual property rights of others or that we have misappropriated the trade secrets of others.

Any litigation or claims against the Company, whether or not valid, could result in substantial costs, could place a significant strain on our financial and managerial resources, and could harm the Company's reputation. In addition, intellectual property litigation or claims could force us to do one or more of the following, any of which could have a material adverse effect on the Company or cause us to curtail or cease its operations:

The sale of a product material to our future operations; or

Obtain a license from the holder of the infringed intellectual property right, which could also be costly or may not be available on reasonable terms.

***We may be subject to damages resulting from claims that the Company or our employees have wrongfully used or disclosed alleged trade secrets of their former employers.***

Upon completion of any acquisitions by the Company, we may be subject to claims that our acquired companies and their employees may have inadvertently or otherwise used or disclosed trade secrets or other proprietary information of former employers or competitors. Litigation may be necessary to defend against these claims. Even if we are successful in defending against these claims, litigation could result in substantial costs and be a distraction to management. If we fail in defending such claims, in addition to paying money claims, we may lose valuable intellectual property rights or personnel. A loss of key research personnel or their work product could hamper or prevent our ability to commercialize certain products, which could severely harm our business.

***Rapid technological change could make any products that the Company sells obsolete.***

Energy efficiency technologies have undergone rapid and significant change and the Company expects that they will continue to do so. Any products or technologies that we may acquire may become obsolete or uneconomical before the Company recovers the purchase price incurred in connection with their acquisition.

***The obligations associated with being a public company require significant resources and management attention, which may divert from our business operations.***

We are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act), and The Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act. The Exchange Act requires that we file annual, quarterly and current reports with respect to our business and financial condition, proxy statement, and other information. The Sarbanes-Oxley Act requires, among other things, that we establish and maintain effective internal controls and procedures for financial reporting. Our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report were not effective in ensuring that material information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. We will need to hire additional financial reporting, internal controls and other financial personnel in order to develop and implement appropriate internal controls and reporting procedures. As a result, we will incur significant legal, accounting and other expenses. Furthermore, the need to establish the corporate infrastructure demanded of a public company may divert management's attention from implementing our growth strategy, which could prevent us from improving our business, results of operations and financial condition. We have made, and will continue to make, changes to our internal controls and procedures for financial reporting and accounting systems to meet our reporting obligations as a public company. However, the measures we take may not be sufficient to satisfy our obligations as a public company. In addition, we cannot predict or estimate the amount of additional costs we may incur in order to comply with these requirements. We anticipate that these costs will materially increase our selling, general and administrative expenses.

Section 404 of the Sarbanes-Oxley Act requires annual management assessments of the effectiveness of our internal control over financial reporting. In connection with the implementation of the necessary procedures and practices related to internal control over financial reporting, we may identify deficiencies. If we are unable to comply with the internal controls requirements of the Sarbanes-Oxley Act of 2002, then we may not be able to obtain the independent account certifications required by that act, which may preclude us from keeping our filings with the SEC current, and interfere with the ability of investors to trade our securities and our shares to continue to be quoted on the OTC Bulletin Board or our ability to list our shares on any national securities exchange.

***If we fail to establish and maintain an effective system of internal controls, we may not be able to report our financial results accurately or prevent fraud. Any inability to report and file our financial results accurately and timely could harm our reputation and adversely impact the trading price of our common stock.***

Effective internal controls are necessary for us to provide reliable financial reports and prevent fraud. If we cannot provide reliable financial reports or prevent fraud, we may not be able to manage our business as effectively as we would if an effective control environment existed, and our business and reputation with investors may be harmed. With each prospective acquisition we may make we will conduct whatever due diligence is necessary or prudent to assure us that the acquisition target can comply with the internal controls requirements of the Sarbanes-Oxley Act. Notwithstanding our diligence, certain internal controls deficiencies may not be detected. As a result, any internal control deficiencies may adversely affect our financial condition, results of operations and access to capital. We have



not performed an in-depth analysis to determine if historical undiscovered failures of internal controls exist, and may in the future discover areas of our internal controls that need improvement.

### **Risks Related to this Offering**

*Public company compliance may make it more difficult to attract and retain officers and directors.*

The Sarbanes-Oxley Act and rules implemented by the SEC have required changes in corporate governance practices of public companies. As a public company, we expect these rules and regulations to increase our compliance costs and to make certain activities more time consuming and costly. As a public company, we also expect that these rules and regulations may make it more difficult and expensive for us to maintain our director and officer liability insurance and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified persons to serve on our board of directors or as executive officers, and to maintain insurance at reasonable rates, or at all.

*Our stock price may be volatile.*

The market price of our common stock is likely to be highly volatile and could fluctuate widely in price in response to various factors, many of which are beyond our control, including the following:

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our ability to execute our business plan and complete prospective acquisitions;

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Changes in our industry;

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competitive pricing pressures;

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our ability to obtain working capital financing;

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additions or departures of key personnel;

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limited public float in the hands of a small number of persons whose sales or lack of sales could result in positive or negative pricing pressure on the market price for our common stock;

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sales of our common stock (particularly following effectiveness of this resale registration statement);

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operating results that fall below expectations;

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regulatory developments;

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economic and other external factors;

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period-to-period fluctuations in our financial results; and

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our inability to develop or acquire new or needed technologies.

In addition, the securities markets have from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of our common stock.

***We have not paid cash dividends in the past and do not expect to pay cash dividends in the future. Any return on investment may be limited to the value of our common stock.***

We have never paid cash dividends on our common stock and do not anticipate doing so in the foreseeable future. The payment of dividends on our common stock will depend on earnings, financial condition and other business and economic factors affecting us at the time as our board of directors may consider relevant. If we do not pay dividends, our common stock may be less valuable because a return on your investment will only occur if our stock price increases.

***Our shares of common stock are thinly traded, the price may not reflect our value, and there can be no assurance that there will be an active market for our shares of common stock either now or in the future.***

Our shares of common stock are thinly traded, our common stock is available to be traded and is held by a small number of holders, and the price, if traded, may not reflect our actual or perceived value. There can be no assurance that there will be an active market for our shares of common stock either now or in the future. The market liquidity will be dependent on the perception of our operating business, among other things. We will take certain steps including utilizing investor awareness campaigns and firms, press releases, road shows and conferences to increase awareness of our business, and any steps that we might take to bring us to the awareness of investors may require we compensate consultants with cash and/or stock. There can be no assurance that there will be any awareness generated or the results of any efforts will result in any impact on our trading volume. Consequently, investors may not be able to liquidate their investment or liquidate it at a price that reflects the value of the business, and trading may be at an inflated price relative to the performance of the Company due to, among other things, availability of sellers of our shares.

If an active market should develop, the price may be highly volatile. Because there may be a low price for our shares of common stock, many brokerage firms or clearing firms may not be willing to effect transactions in the securities or accept our shares for deposit in an account. Many lending institutions will not permit the use of low priced shares of common stock as collateral for any loans. Furthermore, our securities are traded on the OTC Bulletin Board where it is more difficult (1) to obtain accurate quotations, (2) to obtain coverage for significant news events because major wire services generally do not publish press releases about these companies, and (3) to obtain needed capital.

***Our common stock may be deemed a penny stock, which would make it more difficult for our investors to sell their shares.***

Our common stock is currently subject to the penny stock rules adopted under Section 15(g) of the Exchange Act. The penny stock rules generally apply to companies whose common stock is not listed on The Nasdaq Stock Market or another national securities exchange and trades at less than \$4.00 per share, other than companies that have had average revenues of at least \$6,000,000 for the last three years or that have tangible net worth of at least \$5,000,000 (\$2,000,000 if the company has been operating for three or more years). These rules require, among other things, that brokers who trade penny stock to persons other than established customers complete certain documentation, make suitability inquiries of investors and provide investors with certain information concerning trading in the security, including a risk disclosure document and quote information under certain circumstances. Many brokers have decided not to trade penny stocks because of the requirements of the penny stock rules and, as a result, the number of broker-dealers willing to act as market makers in these securities is limited. If we remain subject to the penny stock rules for any significant period, it could have an adverse effect on the market, if any, for our securities. If our securities are subject to the penny stock rules, investors will find it more difficult to dispose of our securities.

***Offers or availability for sale of a substantial number of shares of our common stock may cause the price of our common stock to decline.***

If our stockholders sell substantial amounts of our common stock in the public market, including shares issuable upon the effectiveness of a registration statement, upon the expiration of any statutory holding period under Rule 144, or shares issued upon the exercise of outstanding options or warrants, it could create a circumstance commonly referred to as an overhang and, in anticipation of which, the market price of our common stock could fall. The existence of an overhang, whether or not sales have occurred or are occurring, also could make more difficult our ability to raise additional financing through the sale of equity or equity-related securities in the future at a time and price that we deem reasonable or appropriate. The 1,065,000 shares of common stock issued in the 2009 Merger to the former directors and the 6,872,500 shares of common stock issued in our 2009 Private Placement which are currently issued and outstanding, as well as other shares which were prohibited from being sold for a period of 12 months from when the Company lost its former shell status which ended in November, 2010 are all available for resale.

In general, a non-affiliated person who has held restricted shares for a period of six months, under Rule 144, may sell into the market our common stock all of their shares, subject to the Company being current in its periodic reports filed

with the SEC. An affiliate may sell an amount equal to the greater of 1% of the outstanding shares or, if listed on Nasdaq or another national securities exchange, the average weekly number of shares sold in the last four weeks prior to such sale. Such sales may be repeated once every three months, and any of the restricted shares may be sold by a non-affiliate without any restriction after they have been held one year.

***Because our directors and officers are among our largest stockholders, they can exert significant control over our business and affairs and have actual or potential interests that may depart from those of our other stockholders.***

Our directors and officers and/or their affiliates beneficially own or control approximately 28% of the issued and outstanding common stock and a larger percentage on a fully diluted basis. In addition, the holdings of our directors and executive officers may increase in the future upon vesting or other maturation of exercise rights under any of the options or warrants they may hold or in the future be granted or if they otherwise acquire additional shares of our common stock. As a result, in addition to their board seats and offices, such persons will have significant influence over and control all corporate actions requiring stockholder approval, irrespective of how the Company's other stockholders, may vote, including the following actions:

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to elect or defeat the election of our directors;

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to amend or prevent amendment of our Certificate of Incorporation or By-laws;

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to effect or prevent a merger, sale of substantially all assets or other corporate transaction; and

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to control the outcome of any other matter submitted to our stockholders for vote.



In addition, these persons' stock ownership may discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of the Company, which in turn could reduce our stock price or prevent our stockholders from realizing a premium over our stock price.

***Exercise of options and warrants and conversion of preferred stock may have a dilutive effect on our common stock.***

If the price per share of our common stock at the time of exercise of any warrants, options, or any other convertible securities is in excess of the various exercise or conversion prices of these convertible securities, exercise or conversion of these convertible securities would have a dilutive effect on our common stock. As of October 5, 2012, we had outstanding and reserved derivative securities, which if exercised would issue 26,274,907 shares of Common Stock, consisting of (i) warrants to purchase 3,285,000 shares of our common stock at an exercise price of \$2.00 per share; (ii) outstanding 2009 Placement Agent warrants to purchase 57,500 shares of our common stock at an exercise price of \$1.25 per share; (iii) outstanding options to purchase 640,511 shares of our common stock; (iv) outstanding management Warrants issued on September 1, 2010 to purchase 2,000,000 shares of common stock at an exercise price of \$1.00 per share, of which 1,000,000 shares are vested and exercisable as of December 31, 2011 and 1,948,000 are currently outstanding (52,000 shares had been issued as of July 19, 2012); (v) outstanding performance warrants issued to Management to purchase 2,000,000 shares of common stock available at \$1.25 per share; (vi) outstanding warrants issued on February 24, 2011 to a Board Member under a consulting agreement to purchase 500,000 shares at an exercise price of \$1.24 per share; (vii) outstanding warrants to purchase 500,000 shares at \$1.74 per share granted on December 21, 2011 and 660,000 shares exercisable at \$1.39 per share granted on April 19, 2012 to a consultant and its employee for investor relations services; (viii) 297,850 shares of Series A Convertible Preferred Stock outstanding convertible into 2,978,500 shares of common stock; (ix) 283,052 shares of Series B Convertible Preferred Stock outstanding convertible into 2,830,520 shares of Common Stock; (x) placement agent warrants to purchase 215,750 shares of Common Stock at an exercise price of \$1.75 per share; (xi) warrants to purchase 900,000 shares of Common Stock exercisable at \$1.16 per share granted effective March 15, 2012 to two officers of a Company subsidiary; (xii) warrants to purchase 400,000 and 300,000 shares of Common Stock exercisable at \$1.34 and \$1.32 per share, respectively, granted on May 7, 2012 to two independent consultants; (xiii) Class A Warrants to purchase 2,904,510 shares of common stock at an exercise price of \$3.00 per share outstanding; (xiv) Bridge Warrants to purchase up to 75,000 shares of Common Stock exercisable at \$0.10 per share issued in connection with our May - July 2012 Bridge Financing; and (xv) Warrants to purchase 100,000 shares of Common Stock exercisable at \$1.00 per share to a law firm. Upon exercise of the aggregate 2,904,510 Class A Warrants, warrant holders will receive 2,904,510 Class B Warrants to purchase 2,904,510 shares of common stock at an exercise price of \$6.00 per share.

Upon exercise of the outstanding Class B Warrants, warrant holders will receive 2,904,510 Class C Warrants to purchase 2,904,510 shares of common stock at an exercise price of \$12.00 per share, all of which are issuable under our 2011 and 2012 Preferred Stock Offerings. In addition, upon the effective date of this registration statement, the Company will promptly distribute Class A Warrants to all shareholders of record on December 31, 2010 to purchase 5,927,616 shares of Common Stock and 5,927,616 Class B Warrants to purchase 5,927,616 shares of Common Stock and Class C Warrants to purchase 5,927,616 shares of Common Stock or an additional 17,782,848 shares of Common Stock are issuable. All of the Class A, B and C Warrants have been registered for resale under this Registration Statement. Further, any additional financing that we secure may require the granting of rights, preferences or privileges senior to those of our common stock and which result in additional dilution of the existing ownership interests of our common stockholders.





***Possible redemption of warrants.***

The Company, at its option, may call the 3,285,000, 2009 Private Placement Warrants on ten (10) trading days prior to the notice, if the price of the Common Stock trades at \$6.00 or greater per share (subject to adjustment) for a period of 20 consecutive trading days ending within five (5) trading days prior to the date on which the notice of redemption is given and the Registration Statement for the underlying shares is declared effective. In addition, the Company may redeem each Class A, B and C Warrants at \$.001 per warrant on 20 days prior written notice. However, the Company shall have the option, without further compensation to the holder other than the payment of the redemption price per warrant: (a) to cause any or all of the warrants which were not properly exercised on or before the redemption date to be assigned to one or more third parties (each, a Standby Purchaser), effectively immediately upon the redemption date, for the consideration equal to \$.001 per non-exercised warrant payable to the Company, (b) each Standby Purchaser shall have the right to exercise the non-exercised warrants so assigned to such Standby Purchaser through the tenth business day following the redemption date, and (c) any Standby Purchaser would be deemed to be an underwriter within the meaning of the Securities Act and subject to the prospectus delivery requirements of the Securities Act. The Company has not entered into any agreements, arrangements or understandings with any Standby Purchaser. The Company would need to file a prospectus supplement or post-effective amendment to disclose any warrant redemption and assignment to a Standby Purchaser who would be widentified as an underwriter. Redemption of the warrants could force the holders to exercise the warrants and pay the exercise price at a time when it may be disadvantageous for the holders to do so, sell the warrants at the then current market price when they might otherwise wish to hold the warrants, or to accept the redemption price, which is substantially less than the market value of the warrants at the time of redemption.

In addition, if the warrants are exercised in response to a redemption notice, then dilution could occur from the widespread conversion or exercise of the warrants. Further, this may cause significant downward pressure on the price of our Common Stock as holders that elect to convert or exercise their securities may be able to resell the shares of Common Stock issuable upon conversion or exercise of the warrants in the open market.

***Because we became public by means of a reverse merger, we may not be able to attract the attention of major brokerage firms.***

There may be risks associated with us becoming public through a reverse merger. Securities analysts of major brokerage firms may not provide coverage of us since there is no incentive to brokerage firms to recommend the purchase of our common stock. No assurance can be given that brokerage firms will, in the future, want to conduct any offerings on behalf of our company.

***Our certificate of incorporation allows for our board of directors to create new series of preferred stock without further approval by our stockholders, which could act as an anti-takeover device.***

Our board of directors has the authority to fix and determine the relative rights and preferences of preferred stock. On September 28, 2011, the board of directors had authorized the issuance of up to 300,000 shares of Series A Preferred Stock convertible on a ten for one basis into common stock and 297,850 shares of Series A Preferred Stock were issued and outstanding as of the date of this Prospectus. On March 30, 2012, our Board of Directors authorized the issuance of up to 300,000 shares of Series B Preferred Stock convertible on a ten for one basis with Common Stock and 283,052 shares of Series B Preferred Stock were issued and outstanding as of October 5, 2012. Our board of directors also has the authority to issue preferred stock without further stockholder approval. As a result, our board of directors could authorize the issuance of series of preferred stock that would grant to holders the preferred right to our assets upon liquidation, the right to receive dividend payments before dividends are distributed to the holders of common stock and the right to the redemption of the shares, together with a premium, prior to the redemption of our common stock. In addition, our board of directors could authorize the issuance of series of preferred stock that have greater voting power than our common stock or that are convertible into our common stock, which could decrease the relative voting power of our common stock or result in dilution to our existing stockholders. Unless the nature of a particular transaction and applicable statute require such approval, the Board of Directors has the authority to issue these shares without stockholder approval subject to approval of the holders of our preferred stock. The issuance of preferred stock may have the effect of delaying or preventing a change in control of the Company without any further action by the stockholders.

***Provisions in our charter documents and Nevada law could discourage or prevent a takeover, even if an acquisition would be beneficial to our stockholders.***

Provisions of our certificate of incorporation and by-laws, as well as provisions of Nevada law, could make it more difficult for a third party to acquire us, even if doing so would be beneficial to our stockholders. These provisions include:

authorizing the issuance of blank check preferred that could be issued by our Board of Directors to increase the number of outstanding shares and thwart a takeover attempt;

prohibiting cumulative voting in the election of directors, which would otherwise allow less than a majority of stockholders to elect director candidates; and

advance notice provisions in connection with stockholder proposals that may prevent or hinder any attempt by our stockholders to bring business to be considered by our stockholders at a meeting or replace our board of directors.

### ***Forward Looking Statements***

This prospectus contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. These statements relate to future events or future predictions, including events or predictions relating to our future financial performance, and are generally identifiable by use of the words "may," "will," "should," "expect," "plan," "anticipate," "believe," "feel," "confident," "estimate," "intend," "predict," "forecast," "potential" or "continue" or the negative of such terms or other variations on these words or comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks described under "Risk Factors" that may cause the Company's or its industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. In addition to the risks described in Risk Factors, important factors to consider and evaluate in such forward-looking statements include: (i) general economic conditions and changes in the external competitive market factors which might impact the Company's results of operations; (ii) unanticipated working capital or other cash requirements including those created by the failure of the Company to adequately anticipate the costs associated with acquisitions and other critical activities; (iii) changes in the Company's corporate strategy or an inability to execute its strategy due to unanticipated changes; (iv) the inability or failure of the Company's management to devote sufficient time and energy to the Company's business; and (v) the failure of the Company to complete any or all of the transactions described herein on the terms currently contemplated. In light of these risks and uncertainties, many of which are described in greater detail elsewhere in this Risk Factors discussion, there can be no assurance that the forward-looking statements contained in this prospectus will in fact transpire.

Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, the Company cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither the

Company nor any other person assumes responsibility for the accuracy and completeness of such statements. We do not undertake any duty to update any of the forward-looking statements after the date of this prospectus to conform such statements to actual results or changes in our expectations.

## **DETERMINATION OF WARRANT EXERCISE PRICES**

There is no established public trading market for any of the warrants offered hereby nor is one expected to develop in the near future. The exercise price of (i) the 2009 Private Placement Warrants of \$2.00 per share price; (ii) \$3.00, \$6.00 and \$12.00 per share for the Class A, B, and C Warrants; (iii) investor relations warrants at \$1.74 per share and \$1.39 per share; (iv) consultant warrants at \$1.24 per share, \$1.34 per share and \$1.32 per share; (v) placement agent warrants at \$1.75 per share, respectively, and (vi) up to 75,000 Bridge Warrants exercisable at \$0.10 per share were arbitrarily determined by the Company based on the Company's then current market prices. These exercise prices do not necessarily bear any relationship to our book value, assets, prospects, earnings or any other recognized criterion of value.

## **USE OF PROCEEDS**

The selling stockholders will receive all of the proceeds from the sale of the warrants and shares offered by them under this prospectus. We will not receive any proceeds from the sale of the shares by the selling stockholders covered by this prospectus. We will, however, receive proceeds from the exercise of the warrants if the warrants are exercised for cash. The 3,285,000 2009 Private Placement Warrants provide for cashless exercises. Proceeds received by us, if any, will be used for working capital and general corporate purposes and potential payment for potential acquisitions.

## **MARKET FOR OUR COMMON STOCK AND RELATED STOCKHOLDER MATTERS**

Our common stock has been quoted on the OTC Bulletin Board under the symbol BBLU.OB since October 29, 2010. Prior thereto, from November 23, 2009 through October 28, 2010, it was quoted under the symbol GSFL.OB. Prior to November 23, 2009, there was no active market for our common stock. As of October 19, 2012, there were 98 holders of record of our common stock.



The following table sets forth the high and low bid prices for our common stock for the periods indicated, as reported by the OTC Bulletin Board. The quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not represent actual transactions.

<b>Period</b>	<b>High</b>	<b>Low</b>
<u>Year Ending December 31, 2012.</u>		
July 1, 2012 through September 30, 2012	\$ 1.70	\$ 1.00
April 1, 2012 through June 30, 2012	\$ 1.45	\$ 1.00
January 1, 2012 through March 31, 2012	\$ 1.50	\$ 1.01
<u>Year Ended December 31, 2011</u>		
October 1, 2011 through October 31, 2011	\$ 2.50	\$ 0.81
July 1, 2011 through September 30, 2011	\$ 1.95	\$ 0.81
April 1, 2011 through June 30, 2011	\$ 1.45	\$ 0.6
January 1, 2011 through March 31, 2011	\$ 2.10	\$ 1.10
<u>Year Ended December 31, 2010</u>		
October 1, 2010 through November 30, 2010	\$ 2.50	\$ 0.40
July 1, 2010 through September 30, 2010	\$ 2.50	\$ 0.21
April 1, 2010 through June 30, 2010	\$ 3.65	\$ 1.02
January 1, 2010 through March 31, 2010	\$ 5.85	\$ 2.60
<u>Year Ended December 31, 2009</u>		
November 23, 2009 through December 31, 2009	\$ 6.00	\$ 1.60

The last reported sale price of our common stock as quoted under the symbol "BBLU" on the OTC Bulletin Board on October 25, 2012 was \$1.34 per share.

### **DIVIDEND POLICY**

We have not declared nor paid any cash dividend on our common stock, and we currently intend to retain future earnings, if any, to finance the expansion of our business, and we do not expect to pay any cash dividends in the foreseeable future. The decision whether to pay cash dividends on our common stock will be made by our board of directors, in their discretion, and will depend on our financial condition, results of operations, capital requirements and other factors that our board of directors considers significant. The Board of Directors set December 31, 2010 as the record date to distribute one Class A Warrant for every two shares held of record by each shareholder on such date as a result of the spin-off of Genesis Fluid Solutions. While this warrant distribution is similar to a dividend as no investment decision is necessary on the part of stockholders, it is not a dividend.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis should be read in conjunction with our consolidated financial statements and related notes appearing elsewhere in this prospectus. In addition to historical information, this discussion and analysis contains forward-looking statements that involve risks, uncertainties, and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including but not limited to those set forth under "Risk Factors".

***New Accounting Pronouncements***

See Note 2 to our audited condensed consolidated financial statements for a discussion of recently issued accounting pronouncements.



### ***Critical Accounting Estimates***

Management's discussion and analysis of financial condition and results of operations is based upon our unaudited condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these unaudited condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates and assumptions, including, but not limited to valuation of accounts receivable and allowance for doubtful accounts, those related to the estimates of depreciable lives and valuation of property and equipment, valuation of derivatives, valuation of payroll tax contingencies, valuation of share-based payments, and the valuation allowance on deferred tax assets.

### **Company Overview**

Blue Earth, Inc. is engaged in the clean tech industry in general with a focus on the rapidly growing, multi-billion dollar energy efficiency and renewable energy market sectors. Our industry classifications are as follows: Sector - Services; Industry-Diversified Services; and Sub-industry-Management Services.

Our primary focus is acquiring companies and innovative technologies that serve the multi billion dollar energy efficiency services and renewable energy market sectors. The targeted companies provide a variety of energy services that enable customers to reduce energy consumption, lower their generating capacity and maintenance costs and realize environmental benefits. The targeted technologies typically include various measures designed for a specific customer or facility in our target market of small commercial businesses and residences to improve the efficiency of building systems, such as refrigeration, lighting and heating, ventilation and air conditioning.

Effective January 1, 2011, Blue Earth acquired Castrovilla, Inc. based in Mountain View California which manufactures, sells and installs commercial refrigeration and freezer gaskets and sells and installs motors and controls to approximately 5,400 small commercial businesses.

On September 7, 2011, Blue Earth acquired Xnergy, Inc., and its wholly-owned subsidiary HVAC Controls & Specialties, Inc., a Carlsbad, California based energy services company. Simultaneously, the Company purchased ecoLegacy, LLC which serves as a financing vehicle for Xnergy. Xnergy provides a broad range of comprehensive energy solutions including specialized mechanical engineering, the design, construction and implementation of energy savings projects, energy conservation, energy infrastructure outsourcing, power generation and energy supply and risk management as well as comprehensive maintenance and service programs.

Blue Earth entered into a Purchase and Sale Agreement dated as of July 26, 2012, with White Horse Energy, LLC for the Company to acquire 100% of the issued and outstanding limited liability company interests in Waianae PV-02, LLC, a Hawaii limited liability company which is the owner of certain rights to construct an approximately 497 kilowatt photovoltaic solar energy system in Waianae, Hawaii. Construction is expected to begin in the third quarter of 2012 and is expected to be completed no later than the first quarter of 2013. See Business -Hawaii Solar Energy Acquisitions below.

As of August 31, 2010, the Company sold its wholly-owned subsidiary Genesis Fluid Solutions, Ltd. (GFS) to certain buyers including its former Chairman and interim CEO Michael Hodges as defined by the Stock Purchase Agreement.

### **Results of Operations**

Our revenues are derived from professional services contracts to provide energy service management and technology.

### **Six Months Ended June 30, 2012 Compared with Six Months Ended June 30, 2011 (Actual)**

### ***Revenues***

The Company recognized \$3,653,976 of revenue for the six months ended June 30, 2012, as compared to \$2,043,636 in revenues for the six months ended June 30, 2011. The current revenues represent sales from the Company's wholly-owned subsidiaries Xnergy, Inc. (\$1,817,468) and Castrovilla, Inc. (\$1,836,508). Revenues for the six months ended June 30, 2011 include only Castrovilla, Inc. which was acquired as of January 1, 2011, whose sales include retrofitting refrigeration equipment with energy management systems and gasket sales. The Company acquired Xnergy as of September 7, 2011, effective at the close of business on August 31, 2011, whose sales are installation of alternative energy systems and maintenance.

### ***Cost of Sales and Gross Profit***

Cost of sales for the six months ended June 30, 2012 were \$2,392,141 resulting in a gross profit of \$1,261,835 or 34.5% of revenues. Castrovilla had a gross profit of \$891,969 or 48.6% compared to \$369,866 or 20.3% for Xnergy. By comparison, during 2011 we had a cost of sales of \$752,303 with a gross profit of \$1,291,333 or 63.2% all of which came from Castrovilla, Inc.

### ***Operating Expenses***

#### ***General and Administrative Expenses***

General and administrative expenses were \$4,383,711 for the six months ended June 30, 2012 as compared to \$2,630,254 for the six months ended June 30, 2011, an increase of \$1,753,457 or 66.7%. In 2012 approximately \$1,294,640 (29.5%) of the expenses were from Castrovilla and \$1,395,263 (31.8%) were from Xnergy. The balance of \$1,693,808 (38.6%) for 2012 was corporate administrative expense. Approximately \$1,949,561 (44.5%) of the general and administrative expenses was for payroll costs and \$348,564 (8.0%) was for professional fees in 2012.

In 2011 approximately \$1,109,707 (42.2%) of the expenses were from Castrovilla and the balance of \$1,520,547 was corporate administrative expense. Approximately \$984,231 (37.4%) of the general and administrative expenses was for payroll costs and \$328,258 (12.5%) was for professional fees in 2011.

In 2012, general and administrative expenses include stock compensation expense of \$831,050 (19.0%) compared to \$863,963 (32.8%) in 2011. We recorded depreciation and amortization expense of \$1,247,250 in 2012 compared to

\$275,749 in 2011 due to the amortization of the purchase price of both Castrovilla and Xnergy in 2012, but only Castrovilla in 2011.

We expect our costs for personnel, consultants and other operating expenses to increase as we implement our business plan. Thus, our general and administrative expenses are likely to increase significantly in future reporting periods.

***Other Income (Expense)***

Total other income (expense) for the six months ended June 30, 2012 was \$325,570 compared to \$65,155 for the six months ended June 30, 2011. The increase was primarily attributable to a \$369,416 change in the fair value of the warrant derivative liability in 2012 compared to \$64,199 in 2011. The fair value is recalculated quarterly based primarily on the remaining term of the warrants and stock price volatility.

### ***Net Loss***

Net loss from continuing operations was \$4,043,556 for the six months ended June 30, 2012 as compared with a net loss of \$1,549,515 for the six months ended June 30, 2011, an increase of \$2,494,041. The increase is attributable primarily to an increase in general and administrative expenses related to the operations of the newly acquired subsidiaries and the costs related to the ongoing implementation of our business plan. The net loss attributed to common shareholders was \$4,281,683 in 2012 compared to \$1,549,515 due to the dividends accrued on the preferred stock issued during the last quarter of 2011 and the first six months of 2012. The net loss translates to \$0.22 per share in 2012 compared to \$0.11 in 2011.

### **Six Months Ended June 30, 2012 Compared with Six Months Ended June 30, 2011 (Pro forma)**

The Company acquired Xenergy, Inc. effective September 7, 2011. The following Management's Discussion and Analysis is prepared to provide an understanding of the Company's business activities as though the acquisitions were effective January 1, 2011.

### ***Revenues***

The Company recognized \$3,653,976 of revenue for the six months ended June 30, 2012, as compared to pro forma \$4,236,432, for the six months ended June 30, 2011. The current revenues represent sales from the Company's wholly-owned subsidiaries Xenergy, Inc. (\$1,817,468) and Castrovilla, Inc. (\$1,836,508). Pro forma revenues for 2011 represent sales from the Company's wholly-owned subsidiaries Xenergy, Inc. (\$2,192,796) and Castrovilla, Inc. (\$2,043,636).

### ***Cost of Sales and Gross Profit***

Cost of sales for the six months ended June 30, 2012 were \$2,392,141 resulting in a gross profit of \$1,261,835 or 34.5% of revenues. Castrovilla had a gross profit of \$891,969 or 48.6% compared to \$369,866 or 20.3% for Xenergy. By comparison during 2011 we had pro forma cost of sales of \$2,277,716 with a gross profit of \$1,958,716 or 46.2%. \$1,291,333 (65.9%) of the gross profit came from Castrovilla and \$667,383 (34.1%) came from Xenergy.

### ***Operating Expenses***

*General and Administrative Expenses*

General and administrative expenses were \$4,383,711 for the six months ended June 30, 2012 as compared to pro forma \$4,765,247 for the six months ended June 30, 2011, a decrease of \$381,536, or 8.0%. In 2012 approximately \$1,294,640 (29.5%) of the expenses were from Castrovilla and \$1,395,263 (31.8%) were from Xnergy. The balance of \$1,693,808 (38.6%) for 2012 was corporate administrative expense. Approximately \$1,949,561 (44.5%) of the general and administrative expenses was for payroll costs and \$348,564 (8.0%) was for professional fees in 2012.

In 2011 approximately \$1,109,707 (23.3%) of the expenses were from Castrovilla, \$1,859,244 (39.0%) pro forma expenses were from Xnergy and the balance of \$1,796,296 was corporate administrative expense. Approximately \$1,321,787 (27.7%) of the pro forma general and administrative expenses was for payroll costs and \$328,258 (6.9%) was for professional fees in 2011.

**Twelve Months Ended December 31, 2011 Compared with Twelve months Ended December 31, 2010**

We acquired Castrovilla, Inc. effective January 1, 2011 and Xnergy, Inc. effective September 7, 2011. The following Managements Discussion and Analysis is prepared to provide an understanding of the Company s business activities. We have also provided pro forma numbers as though the acquisitions were effective January 1, 2010 so that the numbers are comparable.

***Revenues***

We recognized \$5,315,664 revenue for the twelve months ended December 31 2011, as compared to \$-0- for the twelve months ended December 31, 2010 from continuing operations. Revenue represents sales from our, wholly-owned subsidiary Castrovilla, Inc. whose sales include retrofitting refrigeration equipment with energy management systems and gasket sales and from the Company's wholly-owned subsidiary Xnergy, Inc. which provides a wide range of energy solutions, including specialized mechanical engineering and the design, construction and implementation of energy savings products. Castrovilla's sales (\$3,858,020) for the twelve months accounted for 72.6% of total revenues, while Xnergy's sales accounted for 27.4% (\$1,457,644) for the four month period owned by the Company. Xnergy's sales include those of its subsidiary HVAC Controls & Specialities, Inc.

***Pro Forma Revenues***

We recognized \$8,682,109 revenue for the twelve months ended December 31 2011, as compared to \$22,398,761 for the twelve months ended December 31, 2010 from continuing operations. Revenue represents sales from the Company's wholly-owned subsidiaries Castrovilla, Inc. and Xnergy, Inc. Castrovilla's sales for the twelve months increased by 12%, (from \$3,433,145) while Xnergy's sales declined to \$4,824,089 or 75% (from \$18,965,616) for the twelve month period.

The decline in Xnergy sales was the direct result of allocating most of Xnergy's resources to development of a pipeline of approximately \$585 million in order to attempt to develop a recurring revenue business model. If management is able to secure project finance, Xnergy's revenues in 2012 should exceed 2010 revenues.

***Cost of Sales and Gross Profit***

Cost of sales for the twelve months ended December 31, 2011 were \$2,838,277, compared to \$-0-, for the twelve months ended December 31, 2010, resulting in a gross profit of \$2,477,387, or 46.6% of revenues. Castrovilla's gross margin was, \$2,264,721, or 58.7% of revenues while Xnergy's gross margin was \$212,666, or 14.4%.

***Pro Forma Cost of Sales and Gross Profit***

Cost of sales for the twelve months ended December 31, 2011 were \$4,999,550, compared to \$6,530,059 for the twelve months ended December 31, 2010, resulting in a gross profit of \$3,682,559, or 42.4% of revenues. Castrovilla's gross margin was \$2,264,721, or 58.7% of revenues while Xnergy's gross margin was \$1,417,838, or 29.3%. Castrovilla's new products have higher gross margins than they had in 2010. Xnergy was unable to finance projects in

2011 prior to acquisition by the Company, resulting in a reduction of sales and the related cost of sales.

***Operating Expenses***

***General and Administrative Expenses***

General and administrative expenses were \$14,434,071 for the twelve months ended December 31, 2011 as compared to \$2,202,320 for the twelve months ended December 31, 2010, an increase of \$12,231,751 or 555%. Approximately \$2,833,569 of the total expenses for the twelve months ended December 31, 2011 were from the operations of Castrovilla and \$1,165,584 were from Xnergy with the balance \$10,434,918 from the administrative expenses of Blue Earth. All of the operating expenses in 2010 were the administrative costs of Blue Earth.

***Pro Forma General and Administrative Expenses***

General and administrative expenses were \$16,988,629 for the twelve months ended December 31, 2011 as compared to \$9,898,260 for the twelve months ended December 31, 2010, an increase of \$7,090,369 due to the administrative costs of Blue Earth. Approximately \$2,833,569 of the total expenses for the twelve months ended December 31, 2011 were from the operations of Castrovilla and \$3,752,001 were from Xnergy with the balance \$10,403,059 from the administrative expenses of Blue Earth, Inc. The administrative costs of Blue Earth include \$1,100,798 from the amortization of intangible assets acquired with Castrovilla and Xnergy and \$9,019,662 for the value of common stock and stock purchase options and warrants.



***Net Loss***

The net loss from continuing operations for the twelve months ended December 31, 2011 was \$14,108,343, a \$11,335,755 or 422%, increase over the \$2,683,231 for the twelve months ended December 31, 2010. This translates to a loss per share of \$0.93 in 2011 compared to \$0.18 in 2010. We also had a loss of \$0.06 per share from discontinued operations in 2010.

***Pro Forma Net Loss***

The net loss from continuing operations for the twelve months ended December 31, 2011 was \$15,584,487, a \$11,697,932 or 301% increase over the \$3,886,555 for the twelve months ended December 31, 2010. This translates to a loss per share of \$1.03 in 2011 compared to \$0.26 in 2010. We also had a loss of \$0.06 per share from discontinued operations in 2010.

**Liquidity and Capital Resources as of June 30, 2012 compared with December 31, 2011**

Net cash used in continuing operations during the six months ended June 30, 2012 totaled \$2,134,283 and resulted primarily from the operating expenses associated with the parent company related to carrying out our business plan.

In addition to a net loss of \$4,281,683, we incurred an increase in accounts receivables of \$190,705 that was partially offered by common stock and options issued for services expensed at \$850,672, depreciation and amortization of \$1,247,250 and a decrease in inventory of \$115,591. Net cash used in continuing operations during the six months ended June 30, 2011 totaled \$1,723,207 and resulted primarily from the operating expenses associated with the parent company related to carrying out our business plan. In addition to a net loss of \$1,549,515, we incurred an increase in accounts receivables of \$504,398, inventory of \$235,826 and prepaid expenses and deposits of \$751,144 that was partially offered by common stock and options issued for services expensed at \$863,963, depreciation and amortization of \$275,749 and an increase in accounts payable and accrued expenses of \$242,163. We expect to continue with a negative cash flow from operations for the foreseeable future as we continue to build our business.

Net cash used in investing activities during the six months ended June 30, 2012 totaled \$-0-. Net cash used in investing activities during the six months ended June 30, 2011 totaled \$231,927 primarily in acquiring Castrovilla.

Net cash provided by financing activities during the six months ended June 30, 2012 totaled \$1,745,781 and resulted from \$1,228,500 of gross proceeds from the sale of preferred stock and \$555,000 of gross proceeds from notes payable. The cash inflows were offset by principal payments on notes payable of \$36,391 and notes payable to related parties of \$1,328. Net cash provided by financing activities during the six months ended June 30, 2011 totaled

\$310,327 and resulted from \$404,333 of cash received in the acquisition of Castrovilla, offset by \$94,006 of cash used to repay notes payable.

At June 30, 2012, we had a working capital deficit of \$3,949,123 including \$138,606 in cash and cash equivalents compared with a working capital deficit of \$3,491,395 at December 31, 2011. We anticipate our revenue generating activities to continue and even increase as we seek and make acquisitions. Our consolidated financial statements were prepared assuming that we would continue as a going concern irrespective of our recurring losses, accumulated deficits and negative cash flows from operations. Our ability to continue as a going concern is subject to our ability to generate profits and/or obtain necessary funding from outside sources, including by the sale of our securities, or obtaining loans from lenders, where possible. Our continued net operating losses increase the difficulty of our meeting these goals, and our efforts to continue as a going concern may not prove successful. Nonetheless, the Company expects that it has sufficient cash and borrowing capacity to meet its working capital needs for at least the next 12 months. The increase in working capital deficit was the result of our negative cash flow from operations.

Historically, we have financed our working capital and capital expenditure requirements primarily from the sales of our equity securities. We are seeking additional equity and/or debt financing in order to implement our business plan. In 2011, we completed a private placement of preferred stock and warrants of \$2,000,000 and an additional \$1,783,500 as of June 30, 2012. We do not have any lines of credit or borrowing facilities to meet our cash needs. It is reasonably possible that we will not be able to obtain sufficient financing to continue operations beyond December 2012. Furthermore, any additional equity or convertible debt financing will be dilutive to existing shareholders and may involve preferential rights over common shareholders. Debt financing, with or without equity conversion features, may involve restrictive covenants.

### ***Related Party Transactions***

No related party transactions had a material impact on our operating results for the six months ended June 30, 2012.

### ***New Accounting Pronouncements***

See Note 2 to our unaudited condensed consolidated financial statements for a discussion of recently issued accounting pronouncements.

### ***Critical Accounting Estimates***

Management's discussion and analysis of financial condition and results of operations is based upon our unaudited condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these unaudited condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates and assumptions, including, but not limited to valuation of accounts receivable and allowance for doubtful accounts, those related to the estimates of depreciable lives and valuation of property and equipment, valuation of derivatives, valuation of payroll tax contingencies, valuation of share-based payments, and the valuation allowance on deferred tax assets.

### ***Off-Balance Sheet Arrangements***

Since our inception, except for standard operating leases, we have not engaged in any off-balance sheet arrangements, including the use of structured finance, special purpose entities or variable interest entities.

**Liquidity and Capital Resources as of December 31, 2011**

Net cash used in continuing operations during the twelve months ended December 31, 2011 ( Fiscal 2011 ) totaled \$4,146,079 which resulted primarily from the operating expenses associated with the parent company related to carrying out our business plan. In addition to a net loss of \$14,108,343, the Company incurred an increase in the warrant derivative liability of \$749,166 an increase in inventory of \$347,174 and a decrease in accounts payable and accrued expenses of \$391,958 that was partially offset by common stock, options and warrants issued for services expensed at \$1,201,602 and \$7,809,893, respectively, and \$1,209,769 of depreciation and amortization expense.

Net cash used in continuing operating activities during the twelve months ended December 31, 2010 ( Fiscal 2010 ) totaled \$1,354,056 and resulted primarily from the net loss of \$3,587,553 incurred while exploring the acquisition of business acquisitions.

Net cash used in investing activities during Fiscal 2011 totaled \$1,420,752 and resulted from the purchase of Xenergy and Castroville, \$100,000 for the purchase of the SwitchGenie license and \$135,360 for the purchases of property and equipment.

Net cash used in investing activities during Fiscal 2010 totaled \$11,021 and resulted from the purchase of property and equipment and net cash used in discontinued investing activities was \$24,418.

Net cash provided by financing activities during Fiscal 2011 totaled \$2,193,843 and resulted from \$2,000,000 of proceeds from the sale of preferred stock, \$1,800,978 of cash in the new subsidiaries offset, in part, by payments on notes payable of \$1,629,231.

Net cash provided by financing activities during Fiscal 2010 totaled \$499,999 and resulted from the sale of our shares of common stock to one investor.

At December 31, 2011, we had a working capital deficit of \$3,491,395 including \$527,108 in cash and cash equivalents. At December 31, 2010, we had working capital of \$2,612,637 including \$3,900,096 in cash and cash equivalents. The decrease in working capital was the result of the assumption of the negative working capital of Xnergy.

We had no revenue generating activities in Fiscal 2010, from continuing operations. Revenues from Castrovilla commenced on January 1, 2011 and from Xnergy on September 1, 2011. We anticipate our revenue generating activities to continue and even increase as we seek and make acquisitions. Our consolidated financial statements were prepared assuming that we would continue as a going concern irrespective of our recurring losses, accumulated deficits and negative cash flows from operations. Our ability to continue as a going concern is subject to our ability to generate profits and/or obtain necessary funding from outside sources, including by the sale of our securities, or obtaining loans from lenders, where possible. Our continued net operating losses increase the difficulty of our meeting these goals, and our efforts to continue as a going concern may not prove successful. Nonetheless, the Company expects that it has sufficient cash and borrowing capacity to meet its working capital needs for at least the next 12 months. Historically, we have financed our working capital and capital expenditure requirements primarily from the sales of our equity securities. We may seek additional equity and/or debt financing in order to implement our business plan. From September 2011 through December 31, 2011, we completed a private placement of Preferred Stock and warrants of \$2,000,000 and an additional \$841,000 through March 5, 2012. We do not have any significant lines of credit or borrowing facilities to meet our cash needs. It is reasonably possible that we will not be able to obtain sufficient financing to continue operations beyond the next 12 months. Furthermore, any additional equity or convertible debt financing will be dilutive to existing shareholders and may involve preferential rights over common shareholders. Debt financing, with or without equity conversion features, may involve restrictive covenants.

### ***Related Party Transactions***

No related party transactions had a material impact on our operating results for the twelve months ended December 31, 2011.

*New Accounting Pronouncements*

See Note 2 to our unaudited condensed consolidated financial statements for a discussion of recently issued accounting pronouncements.

*Critical Accounting Estimates*

Management's discussion and analysis of financial condition and results of operations is based upon our unaudited condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these unaudited condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates and assumptions, including, but not limited to, valuation of accounts receivable and allowance for doubtful accounts, those related to the estimates of depreciable lives and valuation of property and equipment, valuation of derivatives, valuation of payroll tax contingencies, valuation of share-based payments, and the valuation allowance on deferred tax assets.

### **Off-Balance Sheet Arrangements**

Since our inception, except for standard operating leases, we have not engaged in any off-balance sheet arrangements, including the use of structured finance, special purpose entities or variable interest entities.

### ***Use of Estimates***

Management's discussion and analysis of financial condition and results of operations is based upon our unaudited condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these unaudited condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates and assumptions, including, but not limited to valuation of accounts receivable and allowance for doubtful accounts, those related to the estimates of depreciable lives and valuation of property and equipment, valuation of derivatives, valuation of payroll tax contingencies, valuation of share-based payments, and the valuation allowance on deferred tax assets.

### ***Accounts Receivable***

The Company records accounts receivable related to its construction contracts based on billings or on amounts due under the contractual terms. Accounts receivable throughout the year may decrease based on payments received, credits for change orders, or back charges incurred.

Management reviews accounts receivable periodically to determine if any receivables will potentially be uncollectible. Management's evaluation includes several factors including the aging of the accounts receivable balances, a review of significant past due accounts, economic conditions, and our historical write-off experience, net of recoveries. The Company includes any accounts receivable balances that are determined to be uncollectible, along with a general reserve, in its allowance for doubtful accounts. After all attempts to collect a receivable have failed, the receivable is written off against the allowance.

### ***Revenue Recognition***

The Company generates revenues from professional services contracts. Customers are billed, according to individual agreements. Revenues from professional services are recognized on a completed-contract basis, in accordance with ASC Topic 605-35, Construction-Type and Production-Type Contracts. Under the completed-contract basis, contract costs are recorded to a deferred asset account and billings and/or cash received are recorded to a deferred revenue liability account during the periods of construction. Costs include direct material, direct labor and subcontract labor. All revenues, costs, and profits are recognized in operations upon completion of the contract. A contract is considered complete when all costs except insignificant items have been incurred and final acceptance has been received from the customer. Corporate general and administrative expenses are charged to the periods as incurred. However, in the event a loss on a contract is foreseen, the Company will recognize the loss as incurred.

For uncompleted contracts, the deferred asset (accumulated contract costs) in excess of the deferred liability (billings and/or cash received) is classified under current assets as Costs in excess of billings on uncompleted contracts. The deferred liability (billings and/or cash received) in excess of the deferred asset (accumulated contract costs) is classified under current liabilities as Billings in excess of costs on uncompleted contracts. Contract retentions are included in accounts receivable.



## ***Income Taxes***

The Company uses the asset and liability method of accounting for income taxes in accordance with ASC Topic 740, Income Taxes. Under this method, income tax expense is recognized for the amount of: (i) taxes payable or refundable for the current year, and (ii) deferred tax consequences of temporary differences resulting from matters that have been recognized in an entity's financial statements or tax returns. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date. A valuation allowance is provided to reduce the deferred tax assets reported if, based on the weight of the available positive and negative evidence, it is more likely than not some portion or all of the deferred tax assets will not be realized. A liability (including interest if applicable) is established in the consolidated financial statements to the extent a current benefit has been recognized on a tax return for matters that are considered contingent upon the outcome of an uncertain tax position. Applicable interest is included as a component of income tax expense and income taxes payable.

## **BUSINESS**

### **Overview**

Blue Earth, Inc. is engaged in a mergers and acquisition strategy in the clean-tech industry. Our primary focus is acquiring companies and innovative technologies that serve the multi billion dollar energy efficiency services and renewable energy market sectors. The targeted companies provide a variety of energy services that enable customers to reduce energy consumption, lower their generating capacity and maintenance costs and realize environmental benefits. The targeted technologies typically include various measures designed for a specific customer or facility in our target market of small commercial businesses and residences to improve the efficiency of building systems, such as refrigeration, lighting and heating, ventilation and air conditioning.

Effective January 1, 2011, Blue Earth acquired Castrovilla, Inc. based in Mountain View California which manufactures, sells and installs commercial refrigeration and freezer gaskets and sells and installs motors and controls to approximately 5,400 small commercial businesses. See Castrovilla Acquisition below.

On September 7, 2011, Blue Earth acquired Xnergy, Inc., and its wholly owned subsidiary HVAC Controls & Specialties, Inc., a Carlsbad, California based energy services company. Simultaneously, the Company purchased ecoLegacy, LLC, which serves as a financing vehicle for Xnergy. Xnergy provides a broad range of comprehensive

energy solutions including the specialized mechanical engineering, the design, construction and implementation of energy savings projects, energy conservation, energy infrastructure outsourcing, power generation and energy supply and risk management. Xnergy also provides comprehensive maintenance and service programs, including every aspect of heating, ventilation and air-conditioning (HVAC), mechanical systems for design-build to repair and retrofit services. See Xnergy Acquisition below.

Blue Earth entered into a Purchase and Sale Agreement (the PSA ) dated as of July 26, 2012, with White Horse Energy, LLC for the Company to acquire 100% of the issued and outstanding limited liability company interests in Waianae PV-02, LLC, a Hawaii limited liability company which is the owner of certain rights to construct an approximately 497 kilowatt photovoltaic solar energy system in Waianae, Hawaii. Construction is expected to begin in the third quarter of 2012 and is expected to be completed no later than the first quarter of 2013. On August 3, 2012, Blue Earth announced it acquired the exclusive right to construct seven different solar PV projects totaling approximately 3.5 megawatt DC in Hawaii. The projects are valued at approximately \$15 million and are located on the Island of Oahu and are primarily ground mount solar systems. See Hawaii Solar Energy Acquisitions below.

Management also intends to accelerate introduction of the acquired technology/products by offering and installing them through energy management service companies, which have an established base of customers at the local, state, regional and national levels. In order to accelerate product introduction, management expects to enter into varying types of agreements with these energy management service companies, including acquisition agreements and/or joint venture agreements, as may be appropriate, for each company and geographic territory.

Management has also identified several energy management and energy management service companies that have been successfully operating in the residential and small commercial business segment of the energy efficiency sector. These energy service companies specialize in three categories that address small commercial businesses energy efficiency needs: *refrigeration, lighting* and *HVAC*. The targeted acquisition candidates currently provide energy efficiency retrofit services to the small commercial businesses space. Management believes that these companies are ideal candidates from which to build a nationwide distribution, installation and service network through a combination of joint venture/associate relationships and/or acquisitions.

### **Corporate Strategy**

Blue Earth, Inc. management will focus its mergers and acquisitions activities on opportunities with the following profile.

Innovative and commercially proven technologies, which increase energy efficiency/water and wastewater, for the small commercial business segment and residential segment.

Energy management and energy management service companies, which have an established customer base seeking growth capital to expand their capabilities, product offerings and substantially increase their revenues and operating profits.

Energy service companies that provide turnkey energy solutions to public and private clients including EPC (Engineer/Procure/Construct), design build of cogeneration, alternative and renewable electric power plants for green buildings ; regular service and maintenance through long-term contracts and third party commissioning of mechanical and energy projects.

*Bundled Retrofits.* An important element of the M&A strategy is to acquire energy management service companies with an established customer base in each of the afore-mentioned categories. The customer base of each potential acquisition will present an opportunity to cross-sell bundled retrofits to the other acquired companies customer base. For example, when we acquire a company that primarily specializes in *refrigeration* , we will be in position to contact its customer base and offer to provide energy management services for *lighting* and *HVAC* .

Another important criteria is an acquisition candidate s existing relationship with utilities. We are actively seeking private companies that have successfully provided utility funded rebate programs as incentives to their customers to adopt energy efficiency measures that a particular utility based rebate program is offering.

We are targeting energy management companies that specialize in several aspects of utility run energy efficiency programs including: Program Development; Program Implementation; Program Management; Program Tracking; and Program Reporting as required by oversight agencies.

We intend to acquire innovative technologies and established, reputable energy management and energy management service companies, using restricted common stock; cash and/debt in combinations appropriate for each potential acquisition.

*Continue to Maintain Entrepreneurial Approach.* We will maintain an entrepreneurial approach toward our customers and remain flexible in designing projects tailored specifically to meet their needs.

*Expand Scope of Product and Service Offerings.* We plan to continue to expand our offerings by including new types of energy efficiency services, products and improvements to existing products based on technological advances in energy savings strategies, equipment and materials.

*Meet Market Demand for Cost-Effective, Environmentally-Friendly Solutions.* Through our energy efficiency measures and products, we enable customers to conserve energy and reduce emissions of carbon dioxide and other pollutants. We plan to continue to focus on providing sustainable energy solutions that will address the growing demand for products and services that create environmental benefits for customers.

## **Industry Overview**

The market for energy efficiency services has grown significantly, driven largely by rising and volatile energy prices, advances in energy efficiency and renewable energy technologies, governmental support for energy efficiency and renewable energy programs and growing customer awareness of energy and environmental issues. End-users, utilities and governmental agencies are increasingly viewing energy efficiency measures as a cost-effective solution for saving energy, renewing aging facilities and reducing harmful emissions.

The clean-tech industry is a multi-billion global industry comprising several market sectors as follows: energy efficiency, including green building; water and wastewater; recycling and waste; LED lighting; energy storage; alternative energies and renewables; batteries/storage; smart grid electrical distribution system; alternative transport; and various green business, research and financial services.

In August 2010, our Board of Directors elected to broaden the Company's focus in contrast to relying only on watering restoration and remediation, as described below under Corporate History. We will continue to capitalize on our past investments in the patented Rapid Dewatering System, through royalty agreements negotiated from the sale of the Company's wholly-owned subsidiary to a group of buyers, including a former officer and director.

## **Corporate Structure**

Our corporate structure for energy efficiency related acquisitions is designed to separate the acquired companies into three wholly-owned subsidiaries of the Company, which will be operated as separate business units.

**Blue Earth, Inc. Corporate Structure**

\*\* Xnergy and Blue Earth Energy Management Services Inc/Castrovilla Inc management report to Johnny Thomas CEO & President of Blue Earth Inc. Installation and service personnel of these subsidiaries report to Xnergy, Jason Davis for license supervision.

Although the seven subsidiaries will operate independently, they will work in concert to develop, manage, implement and monitor energy efficiency programs for the utilities and the small commercial businesses established customer base.

We believe that the implementation and execution of our corporate strategy will benefit our shareholders and attract investors who are looking at two bottom lines: financial profitability and social or environmental benefits produced by the Company and its products and services.

### **Castroville Acquisition**

On January 19, 2011, Castroville Energy, Inc., a recently formed California subsidiary of the Company, acquired substantially all of the assets of Humitech of Northern California, LLC ( Humitech ), a California limited liability company and its related company, Castroville, Inc. (collectively, with Humitech, the Castroville Acquisition ) with an Effective Date (as defined) of January 1, 2011. Founded in 2004, Castroville based in Mountain View, California, had approximately \$3.4 million in audited revenues in 2010, which is more than twice its 2008 revenues. Castroville currently serves approximately 5,400 small commercial businesses in Northern California with its 30 employees as of December 31, 2011. Castroville manufactures, sells and installs commercial refrigeration gaskets and strip curtains, which it sells and installs alongside many other energy efficiency products, such as EC motors, LED lights and a variety of control technologies. Castroville s strategy is to sell energy efficiency bundled retrofits (refrigeration, lighting, HVAC), to its customer base.

Castroville participates in several ratepayer funded utility companies energy efficiency rebate programs, both through third-party programs and through its own small commercial business program, *Keep Your Cool*. The *Keep Your Cool* program was created in response to a Request For Proposals put out by a local municipal utility, Silicon Valley Power. Castroville s proposal was accepted and the program funded several hundred thousand dollars. This eventually resulted in contracts with over a dozen municipal utilities throughout Northern California to provide turnkey program administration and implementation. In 2008, Castroville acquired the assets of Bay Area Refrigeration, a fully licensed commercial refrigeration contractor that has serviced the San Francisco Bay Area for nearly 30 years.

Castroville has created a business model for sustainably generating and delivering kW and kWh that benefits both the utility and the end user. Castroville provides energy efficiency services to small commercial businesses and delivers custom programs directly to utilities. The model is both expandable and scalable. Castroville is well positioned in terms of capabilities and relationships with utilities and the energy service companies (ESCO) running the third-party programs. Castroville intends to become a statewide and regional service provider.

Since acquiring Bay Area Refrigeration and the C-38 refrigeration contractor's license, Castrovilla is qualified to install Electronically Commutated (EC) motors, Evaporator Fan Controllers, Anti-Sweat Heater Controllers and LED Case Lighting and other technologies. This has made the Company's retrofit projects far more comprehensive, which is a significant competitive advantage over companies that target only a single measure. In fact the largest rebate programs require comprehensive retrofits to qualify for rebates.

In addition to energy efficiency retrofits, Castrovilla also has on-going contracts to provide periodic maintenance to numerous restaurants and other refrigerated facilities throughout the San Francisco Bay Area. This includes 24 x 7 emergency refrigeration services.

In mid-2009 Castrovilla opened an online-store ([www.bayarearefrigeration.com](http://www.bayarearefrigeration.com)) to sell manufactured gaskets and strip curtains on both a wholesale and retail basis. The web site also allows us to distribute refrigeration hardware, plumbing fixtures, kitchen equipment, water filtration, electrical and tools and accessories.



The purchase price for Humitech, under the Asset Purchase Agreement ( APA ) was \$600,000. This consisted of the payment of \$150,000 of affiliated debt and the issuance of 267,857 shares of restricted Common Stock of Blue Earth, Inc. with an agreed upon value of \$450,000, or \$1.68 per share, the average closing price of the Company's Common Stock from September 1-23, 2010, when the terms of the transaction were agreed to. The Company also assumed trade debt of approximately \$121,000. Humitech will remain an unaffiliated non-operating entity in order to pay its other liabilities with the proceeds of the shares received from the Company, as well as from an inter-company note in the amount of \$356,707 from Castrovilla, Inc.

On December 30, 2010, Castrovilla Energy, Inc. ( CEI ), a wholly-owned subsidiary of the Company's subsidiary, Blue Earth Energy Management Services, Inc. ( BEEMS ) entered into an Agreement and Plan of Merger (the Plan ) with Castrovilla, Inc. and the Stockholders of Castrovilla, Inc. with an Effective Date of January 1, 2011, subject to final Board approval which was obtained on January 18, 2011. CEI merged with and into Castrovilla, Inc. on January 21, 2011, which continued its existence as a wholly-owned California subsidiary of BEEMS.

Under the Plan, the Company issued an aggregate of 1,011,905 shares of its Common Stock valued at \$1.68 per share, or \$1,700,000, to the stockholders of Castrovilla, Inc. in exchange for all of the outstanding capital stock of Castrovilla, Inc. All of the Company's 1,279,762 shares issued in the Castrovilla Acquisition (collectively, the Company Shares ) are subject to Lock-up/Leak-out and Guaranty Agreements, as amended. The two Castrovilla, Inc. stockholders, John Pink, who continued as President of Castrovilla, Inc., and Adam Sweeney, together with Humitech (the Stockholders ) could not sell any of the Company Shares for a six-month period beginning on the Effective Date of the Plan of January 1, 2011, and thereafter and ending June 30, 2013, the three stockholders may sell up to 2,461 Company Shares per trading day in the aggregate until all Company Shares are sold (the Lock-up Period ). The Company contingently guaranteed (the Guaranty ) to the Stockholders the net sales price of \$1.68 per share, provided the Stockholders are in compliance with the terms and conditions of the Lock-up Agreement and the hereinafter described performance criteria are met.

A number of shares equal in value to fifty percent (50%) of the profits, if any, from the sale of shares above \$3.36 per share during the Lock-up Period will be returned to the Company. Any deficit from sales below \$1.68 per share shall be paid (i) 50% in cash, and (ii) the remaining 50% in either cash or shares of Common Stock of the Company (at their then current fair market value, or any combination thereof, at the sole discretion of the party making the payment) provided certain Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) performance criteria are achieved as discussed in the next paragraph.

For the twelve (12) months ended December 31, 2011, the Company's EBITDA was negative and therefore there is no guarantee in effect for the quarter ended March 31, 2012, as well as for the period ended September 30, 2012, and none for the foreseeable future due to the decision to expand Castrovilla's operations into several new states. Thereafter, the determination of whether there will be a guaranty in effect is determined as follows:

In the event that Castrovilla Inc.'s EBITDA during the Lock-up Period is less than the budgeted amount of \$722,000 of EBITDA per year for each of the fiscal years ending December 31, 2012 and 2013, the \$1.68 per share guaranteed price shall be decreased by the same percentage decrease that EBITDA is below the projected \$722,000 of EBITDA.

All of such calculations will be in accordance with GAAP and derived from the Company's reviewed financial statements for the first three fiscal quarters of the year and the audited financial statements for the fourth quarter of the year. If EBITDA is zero or negative, then no Guaranty is in effect for the next quarter and the number of the Company's Shares which could have been sold during such three-month period will not be covered by a Guaranty in the future.

The targeted EBITDA for the 12-month period from July 1, 2011 to June 30, 2012 is \$722,000, or \$180,500 per quarter (the quarterly rate of \$180,500 is a constant for each quarter through to the end of the Lock-up/Guarantee period). Therefore, for the 12 months ended December 31, 2011, the targeted EBITDA was \$722,000. The targeted EBITDA for each subsequent 12-month period shall be \$722,000, which shall be compared to the actual performance for the most recent 12-month reporting period as illustrated above and multiplied times \$1.68 to arrive at the guaranteed share price, if any. These targeted amounts may be reduced if a majority of the Board of Directors agree on budget changes which require an acceleration of expenses thereby affecting a current year's budgeted EBITDA.

In addition, under the Plan, the Company paid \$50,000 to an unaffiliated third party for an existing obligation of Castrovilla, Inc. There was no relationship between the Company or its affiliates and any of the other parties, prior to this transaction and with respect to the APA and the Plan.

### **Castrovilla Products and Services**

In 2010 and 2011, Castrovilla's revenues were generated primarily from sales of parts and equipment for refrigeration and LED Case Lighting, refrigeration service, preventative maintenance, consulting, and on-line sales. Currently, the only materials that are purchased in large quantities are its gasket materials. All other inventory including EC motors, Anti-Sweat heaters (ASH) controllers, LED Case Lights and other hardware are kept in low quantities or purchased on an as needed basis.

Castrovilla accesses a variety of rebate programs, always choosing the best one for a given project. The funds that pay for the rebate programs utilized by Castrovilla are the result of California Public Utilities Commission (CPUC) requirements that all utilities in the State of California collect a Public Benefits charge as a percentage of the total bill. These funds are required to be invested in energy savings programs. This pool of money measures in the billions of dollars and pays for many programs. Several of these programs are provided through third-party programs, which are usually administered by ESCO and consulting companies and implemented by refrigeration, lighting, HVAC and solar companies. Each program has different eligibility requirements and/or is available in different areas. Participating in the programs in its market area allows Castrovilla to provide the broadest coverage to its customers.

Castrovilla management believes that the key to sustaining and expanding its program is to take part in or take advantage of a constant stream of technological innovation. By identifying, evaluating and verifying the best new measures Castrovilla is able to serve its 5,400 small commercial customers and bring in new ones. In some cases Castrovilla is introduced to new measures through its work for other companies, which it can assimilate into Keep Your Cool.

### **Xnergy Acquisition**

On September 7, 2011, Blue Earth, Inc. acquired Xnergy, Inc. ( Xnergy ), a Carlsbad, California based energy services company (the Xnergy Acquisition ). Xnergy provides a broad range of comprehensive energy solutions including specialized mechanical engineering the design, construction and implementation of energy savings projects, energy conservation, energy infrastructure outsourcing, power generation and energy supply and risk management. Xnergy also provides comprehensive maintenance and service programs, including every aspect of heating, ventilation and air-conditioning (HVAC), mechanical systems for design-build to repair and retrofit services.

Xnergy has an alternative energy project pipeline opportunity of approximately \$585 million. The projects are all located in California and the target clients are those that have a premium credit rating and have large energy needs. These candidates include hotels/casinos industrial manufacturing, life sciences, telecommunications, medical, churches, pharma and public facilities. The \$585 million alternative energy project pipeline is comprised of designing, building, implementing and servicing three cutting-edge alternative energy technologies: Solar PV, Geothermal and Fuel Cells.

**Xnergy Business Strategy - Energy Efficiency**

In order to maximize the effectiveness of any energy efficiency measures, the following steps should be taken:

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**Determine the energy efficiency goals and priorities.** Each company or organization has different priorities with regard to their energy efficiency goals.

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**Reduce energy demand through Commissioning.** A thorough commissioning study will ensure that a building is performing to its design intent and will look at the following:

o

Lighting

o

Mechanical / HVAC systems and controls

o

Refrigeration

o

Equipment (office, process, and manufacturing)

o

Building Envelope (windows, foundation, walls, ceiling roof, and insulation)

o

## Electrical Systems

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**Energy audit.** Energy usage, history, and costs may be gathered from the utility company which will be helpful in determining what areas of the facility could improve the most by implementing certain energy efficiency measures.

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**Recommend energy efficiency strategies to attain goals.** Some of these recommendations may be implemented under the second bullet above. Other energy-saving measures include more efficient equipment, self-generating systems, new controls and variable speed drives.

### *Alternative Energy Systems / Distributed Generation.*

An alternative energy system needs to suit the facility and its owner's needs. The following are several systems that Xenergy has a great deal of experience with:

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**Photovoltaics / Solar Power.** This popular method converts the sun's energy directly into electricity. PV is a viable method of generating power and more panel manufacturers are constantly increasing the efficiency and effectiveness of their equipment.

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**Fuel Cells.** Fuel Cells use hydrogen and oxygen, the molecules that create water, to produce electricity with no pollution. A fuel cell operates like a battery, however a fuel cell does not run or require recharging. It will produce energy in the form of electricity and last as long as fuel is supplied.

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**Gas Turbines.** These are used for distributed generation of electricity. They are reliable and have minimal maintenance costs, and have control requirements to address air pollutants.

**Combined Heat & Power (CHP) using Fuel Cells or Other Technologies.** Waste heat from the power generation process is used to create either steam or hot water which can in turn be used for heat for the building.

**Thermal Energy Storage (TES).**In this process ice is made at night during off-peak energy pricing, and stored for use during the day to cool the building when it is occupied.

*Energy Procurement / Finance Options / Incentives*

Along with the increasing demand for energy resources there are also more and more incentives to implement energy saving strategies for traditional and alternative energy systems. Along with these incentives there are some creative methods to attain and pay for power:

**Power Purchase Agreements (PPAs).** This popular method is a long-term agreement to buy power from a source that produces electricity. Under a standard PPA, the power source assumes the risk of operating and managing the electricity. This method frees up capital that a company could use elsewhere in its business operations while still maintaining low electricity costs. Xnergy has established relationships with the financing sources and can find and broker the right deal for the facility.

**Synthetic Lease Agreements (SLAs).** This method enables a lessee to obtain equipment without having the debt on the company balance sheet. The lessee can still get all the tax benefits (and burdens) of ownership, including the asset depreciation.

**PV: California Solar Initiative (CSI) Incentive:** For photovoltaic/solar systems, the CSI provides an incentive - based on the system size - for a newly implemented PV system. Xnergy will help navigate the process and can assist in filling out the application and necessary paperwork needed in order to acquire the incentive.

**Tax Credits for Alternative Energy Implementation.** The federal government has extended the tax credits to companies upon the implementation of alternative energy systems. This credit can exceed 30%, depending on the tax bracket.

*Hawaii Solar Energy Acquisitions.*



Blue Earth entered into a Purchase and Sale Agreement (the "PSA") dated as of July 26, 2012, with White Horse Energy, LLC. The PSA provides for the Company to acquire 100% of the issued and outstanding limited liability company interests in Waianae PV-02, LLC, a Hawaii limited liability company (the "SPE"). The SPE is the owner of certain rights to construct an approximately 497 kilowatt photovoltaic solar energy system in Waianae, Hawaii. Construction began in the third quarter of 2012 and is expected to be completed no later than the first quarter of 2013. The project is valued at approximately \$2 million and consists of a solar PV system mounted on the ground. The SPE has a fully executed 20 year power purchase agreement ("PPA") with Hawaiian Electric Company ("HECO"). The SPE will engineer, construct, own, operate and maintain the solar PV plant. The power generated by the plant will be sold to HECO in the form of kilowatt-hrs (electricity).

Hawaii has the largest Renewable Portfolio Standard in the US, requiring 40% of the state's energy be supplied by renewable energy by 2030. HECO's Feed-In-Tariff ("FIT") program is designed to encourage the addition of more renewable energy projects in Hawaii. Pre-established FIT rates and standardized FIT contract terms facilitate the process of selling renewable energy to HECO.

The Company, has paid an aggregate of \$144,350; will pay \$124,250 upon commencement of operations (the "COD Date") and up to another \$35,000 upon the COD Date if costs and expenditures related to the Project equal less than \$1,850,000 per 500 kW(dc) capacity of the Project on the COD Date.

On August 3, 2012, Blue Earth announced that it acquired the exclusive rights to construct seven different solar PV projects totaling approximately 3.5 megawatts DC in Hawaii. The projects are valued at approximately \$15 million. The projects are located on the island of Oahu and are primarily ground mount solar systems. Six projects acquired by BBLU meet the requirements of the Renewable Energy Tier 2 Feed-in Tariff ( FIT ) offered by HECO. The planned projects will employ local trade people during their construction. Xnergy, Inc. will provide the engineering procurement and construction ( EPC ) for the respective projects. Two projects are expected to begin in the third quarter of 2012 and are expected to be completed no later than the fourth quarter of 2012. Five projects are expected to begin in the fourth quarter of 2012 and are expected to be completed in the first quarter of 2013.

### **Xnergy Plan of Merger**

Pursuant to the terms and conditions of an Agreement and Plan of Merger (the Plan ), the Company purchased all of the capital stock of Xnergy for a Purchase Price of \$15,012,010 (the Purchase Price ). The Company issued to the two shareholders of Xnergy, D. Jason Davis and Joseph Patalano (the Xnergy Stockholders ) an aggregate of 4,500,000 shares of restricted Common Stock, valued at \$3.00 per share in the merger agreement. However, the common shares were subsequently valued at \$1.72 per share for accounting purposes based upon the average closing price of the Company's common stock from September 8, 2011 through trading on September 26, 2011. The shares are subject to a lock-up period whereby 1,000,000 of the shares are eligible for sale beginning one year from the closing date and the remaining 3,500,000 shares are eligible for sale commencing two years from the Closing Date. The Xnergy Stockholders acquired all of the shares of Xnergy owned by a former stockholder of Xnergy, for \$2,700,000 under an agreement between the parties. The Company paid the Xnergy stockholders \$10.00 and other good and valuable consideration for the right to assume payment to the former stockholder of the unpaid balance of \$1,512,010. The Company renegotiated the Note and will continue to make payments to the former stockholder until paid in full. Payment is collateralized by restricted shares of Blue Earth Common Stock based on a market price formula in the event of default. See Legal Proceedings below for further information on amendments to the foregoing agreements.

The Company simultaneously entered into a Securities Purchase Agreement with Messrs. Davis and Patalano, the members of ecoLegacy LLC, to acquire said company which will continue to serve as a financing vehicle for Xnergy Distributed Energy Projects and is expected to receive recurring revenue from the equity portion of the alternative energy pipeline project described above. The consideration for the acquisition of ecoLegacy LLC was Blue Earth's assumption of \$143,681 liability for legal services rendered to Xnergy. Hence, for valuation purposes, the proper price/share for accounting purposes is \$1.72/share or \$7,740,000 for the shares plus the cash component as stated above.

D. Jason Davis, as CEO of Xnergy, and Joseph Patalano as COO of Xnergy, entered into five-year employment agreements with the Company and D. Jason Davis is expected to become a director of the Company. Their employment agreements include a bonus plan based upon sharing a percentage of earnings above certain minimum thresholds for the three fiscal years ending December 31, 2013. The Xnergy Stockholders each signed a non-competition and non-solicitation agreement extending until two years after voluntary separation from employment. All Xnergy employees, other than Messrs. Davis and Patalano, shall be eligible to participate in the Company's employee stock option plan. Certain key employees, selected by Jason Davis, shall receive a total 66,667

shares issuance based on a formula of years of services and salary and restricted shares of the Company's Common Stock, which shall not be eligible for sale prior to one-year from the Closing.

### **Supply Agreement**

On October 5, 2011, the Company entered into a Retail Petroleum/Convenience Store Energy Efficiency Joint Development Agreement (the "JDA") with General Supply & Services, Inc. ("Gexpro"), of Shelton, Connecticut and G&N Holdings LLC, d/b/a eCORE Technology, of Torrance, California, which was terminated on February 14, 2012, and the Company maintains an at will relationship with Gexpro. Under the JDA the parties were to market, implement and provide financing to more than 2,000 independently owned retail petroleum/convenience store sites operating in selected North American markets.

Gexpro and other suppliers will supply equipment, including lighting and motors on an individual contract-by-contact basis.

### **Non-Exclusive License and Supply Agreement to SwitchGenie Patented Lighting Controls Technology**

On May 16, 2011, Blue Earth obtained the exclusive perpetual private label license (the License ) and manufacturing rights to an innovative and patented lighting controls technology from SwitchGenie LLC (n/k/a Logica Lighting Controls, LLC, hereinafter Logica ), and James F. Loughrey. The purchase price consisted of (i) \$100,000 cash; (ii) 150,000 restricted shares of common stock subject to the terms and conditions of a Lock-Up/Leak-Out Agreement; and (iii) a royalty equal to 4% of gross profits from the sale of products utilizing the IP, for a 10 year period, with an initial review of this and other terms, three years from the execution of the License.

Effective July 30, 2012, the Company entered into a Settlement Agreement and Release of Claims (the Settlement Agreement ) with SwitchGenie, LLC (d/b/a Logica Lighting Controls, LLC, hereinafter referred to as Logica ), Blue Earth Energy Management Inc., James Loughrey and Kaye Loughrey. The parties terminated their Exclusive License and Manufacturing Agreement dated May 16, 2011 (the Exclusive License ) and Consulting Agreements dated May 16, 2011 with each of James Loughrey and Kaye Loughrey (the Consulting Agreements ). On July 30, 2012, Logica, James Loughrey and the Company entered into a Non-Exclusive License and Supply Agreement (the Non-Exclusive License ). Under the Non-Exclusive License, the Company was granted the right to purchase Logica products at 18% over cost. In addition, the Company was granted a non-exclusive license from Logica to use all patents, technology and intellectual property owned by Logica and/or Jim Loughrey. The Company has no manufacturing rights for Logica products.

The Settlement Agreement provided for Logica to return to the Company 75,000 shares of Blue Earth Common Stock, retain 75,000 shares of Blue Earth Common Stock, subject to a lock-up/leak-out agreement, and cancel all warrants to purchase 160,000 shares of Blue Earth Common Stock. The Parties released each other from all obligations under the Exclusive License and Consulting Agreements which were terminated.

This technology is based on distributed intelligence that embeds a microprocessor to control the switch inside a fluorescent ballast. The microprocessor can now control each individual fluorescent tube in either an on/off state using the existing wall switch to send instructions to the smart ballast which controls the on/off state of each tube. As important, each fluorescent tube can be optionally controlled by a wireless device, including a computer, which can control a network of lights in any given facility. The energy cost savings realized are immediate and long term.

The patented technology is an innovative, energy saving solution, that is superior to existing fluorescent dimming, for multi-lamp fluorescent fixtures in commercial, public and industrial buildings including office complexes, universities, schools, warehouses, retail stores, shopping centers, malls, sports arenas and military complexes. By

simply replacing the ballast in these fixtures with the patented switch ballast the end user is able to control fixtures and turn on only the number of lamps necessary for a particular application. Typically, electrical energy savings are greater than 50% and ROI of the entire system is typically less than two years and less than one year with rebates.

On May 16, 2011, the Company entered into Consulting Agreements, which were subsequently terminated in January 2012, with Jim and Kaye Loughrey, principals of SwitchGenie, to specify and direct all the manufacturing and quality control activities under the now terminated perpetual License. The 160,000 Warrants issued to Jim and Kaye Loughrey were forfeited under the Settlement Agreement.

## Rapid Dewatering System (RDS)

On August 31, 2010, pursuant to a Stock Purchase Agreement, the Company sold to various shareholders including its former Chairman and interim CEO, all of the issued and outstanding common stock of Genesis Fluid Solutions, Ltd. ( GFS ) then a wholly-owned subsidiary. As described under Certain Relationships and Related Transactions - Discontinued Operations , in addition to 6,331,050 shares of Common Stock of the Company and approximately 3,011,000 options and warrants returned to the Company by the purchasers of GFS, we received a 6% royalty on all gross revenues derived from dewatering operations and the sale, lease or licensing arrangements of the Rapid Dewatering System ( RDS ) and/or any of the dewatering boxes of its affiliates until the Company receives \$4 million and a royalty of 3% of gross revenues thereafter not to exceed a cumulative royalty of \$15 million.

The GFS patented RDS removes different types of debris, sediments, and contaminants from waterways and industrial sites, which assists in the recovery of lakes, canals, reservoirs and harbors. The RDS system separates water from the solid materials that are dredged, a process that is known as dewatering. GFS believes its technologies have a variety of benefits for both industry and the environment, however GFS has had very limited revenues to date. Many waterways worldwide suffer from eutrophication or deterioration, leading to the formation of wetlands. This typically results from agricultural run-off and other man-made causes. Some waterways are so polluted and stagnant that their animal and plant life die off and, in the case of rivers and streams, the current ceases to flow. Cleaning a waterway often requires dredging. Dredging empties the water body of large quantities of built-up debris along the bottom, ranging from coarse material, such as shells, organic vegetation and garbage, to sand and fine grained sediment, such as clays, silts and organics.

## Market Size

According to a 2009 McKinsey & Company report there are a total of *\$130 billion* worth of energy saving opportunities annually in the U.S. economy that go unrealized. The central conclusion of the report states that energy efficiency offers a vast, low-cost energy resource for the U.S. economy. Significant and persistent barriers will need to be addressed at multiple levels to stimulate demand for energy efficiency and manage its delivery across more than 100 million buildings and literally billions of electronic devices. If executed at scale, a holistic approach would yield gross energy savings of more than \$1.2 trillion, well above the \$520 billion needed through 2020 for upfront investment in efficiency measures (not including program costs). Such a program is estimated to reduce energy consumption in 2010 by 9.1 quadrillion BTU s, roughly 23% of projected demand, potentially abating up to 1.1 gigatons of greenhouse gases annually.

We are focusing our efforts in the multi-billion dollar energy efficiency segment of the clean-tech industry. Energy efficiency companies, sometimes referred to as energy services companies, (ESCO), develop, install and arrange financing for projects designed to improve the energy efficiency of buildings and other facilities. Typical products and services offered by energy efficiency companies include boiler and chiller replacement, HVAC upgrades, lighting retrofits, equipment installations, on-site cogeneration, renewable energy plants, load management, energy procurement, rate analysis, risk management and billing administration. Energy efficiency companies often offer their products and services through ESPCs. Under these contracts, energy efficiency companies assume certain

responsibilities for the performance of the installed measures, under assumed conditions, for a portion of the project's economic lifetime. According to a 2010 Lawrence Berkeley National Laboratory study, which analyzes the current size of the energy efficiency services sector, sector growth projections to 2011 and market trends for energy efficiency related services, the sector in aggregate will have annual revenues exceeding \$7 billion in 2011. The above forecast under the high growth scenario for spending in 2015, in the energy efficiency services sector, is estimated to be \$50 billion with ESCO revenues representing twenty-five percent or \$12.5 billion.

Investment levels in energy efficiency in buildings in the private and public sectors and industrial manufacturing facilities have remained strong despite the global recession according to the Energy Efficiency Indicator (EEI) recently released by Johnson Controls, Inc. The EEI tracks energy management priorities, practices and investment plans among decision makers responsible for managing commercial buildings and their energy use.

Across all regions surveyed, energy management is considered an important priority among commercial decision-makers. While motivations differ from region to region, cost savings is consistently the most important factor driving investments. The current economic environment has led many organizations to search for opportunities to reduce their operating costs. There has been a growing awareness that reduced energy consumption presents an opportunity for significant long-term savings in operating costs and that the installation of energy efficiency measures can be a cost-effective way to achieve such reductions. After cost savings, lowering greenhouse gas emissions is the second most important motivator for energy efficiency in all regions except North America, where boosting public image and taking advantage of government/utility incentives rank higher in importance.

According to the American Council for an Energy-Efficient Economy ( ACEEE ) there is approximately 67 billion square feet of commercial floor space in the U.S. Commercial buildings account for 17% of total energy consumed in the U.S. at an average cost of \$1.21 per square foot of commercial floor space. ACEEE points to energy efficiency in buildings as the cleanest, lowest-cost, most sensible way of promoting economic prosperity, energy security and environmental protection.

The ACEEE 2011 State Energy Efficiency Scorecard reports that states are demonstrating their growing interest in energy efficiency as a means to bolster their economies. Governors, state legislators, officials and citizens, increasingly recognize energy efficiency - the kilowatt hours and gallons of gasoline saved that we don't use thanks to improved technologies and practices - as the cheapest, cleanest and quickest energy resource to deploy.

In 2011, energy efficiency continued to build momentum in the states despite the sluggish economic recovery, a partisan political climate and the failure of Congress to develop a comprehensive energy policy. Politicians and citizens are increasingly recognizing that energy efficiency is a key solution to our economic, energy, and environmental challenges. Fully harnessing America's untapped, abundant energy efficiency resource will not only save consumers and businesses money, but will also unleash technological innovation and new business opportunities that create and sustain jobs. As they have over the past decades, states continue to provide the leadership needed to forge an energy-efficient economy, which reduces energy cost, spurs job growth and benefits the environment. Other key findings include:

Earning the #1 ranking, Massachusetts has overtaken California, which had placed atop the rankings the last four years. Central to Massachusetts' success is the continued implementation on the 2008 Green Communities Act, which laid the foundation for greater investment in energy efficiency programs.

This year's most improved states include Michigan, Illinois, Nebraska, Tennessee, Alabama, and Maryland. Michigan, Illinois and Maryland have significantly increased utility-sector energy efficiency efforts in order to meet energy



savings targets established in Energy Efficiency Resource Standards (EERS) passed in 2008.

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Not far behind Massachusetts and California, a group of states including New York, Vermont, Oregon, Washington, Connecticut, Minnesota and Rhode Island remain in the top ten and continue to lead the nation in energy efficiency policy and program implementation across all economic sectors.

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Twenty-four states have adopted or have pending Energy Efficiency Resource Standards (EERS) which set long-term, fixed efficiency savings targets, and drives utility sector investments in energy efficiency programs. States that adopted EERS policies in 2007 and 2008 are realizing significant energy and moving ahead in scorecard rankings.

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Twenty-nine states have either adopted or have made significant progress toward the adoption of the latest energy saving building codes for homes and commercial properties, up from twenty in 2010 and ten in 2009.

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A group of leading states remains ahead of the curve in adopting policies to reduce vehicle miles traveled and promote the purchase and manufacture of efficient vehicles. A major gap exists, however, as over half the states have minimal or no policies to encourage efficiency in the transportation sector.

## **Additional Market Drivers**

Castroville's key markets in 2010 and 2011 were third-party utility rebate programs, Keep Your Cool rebate program, restaurant and convenience store maintenance and service, consulting and wholesale and Internet sales. Castroville services the San Francisco Bay Area, California's Central Valley region, Sacramento and San Diego, California and Spokane, Washington.

*Utility Rebate Programs.* In a number of markets throughout the U.S., local electrical utilities and related organizations are offering rebates for the purchase and installation of energy efficient products and systems. Ratepayer funded programs are offered by utilities to encourage load reductions by its customers. These incentives may be structured as one-time up-front rebates on energy efficient equipment or may consist of payments per measured kWh saved over a course of several years. Small commercial businesses can leverage the cost of *retrofits* with incentives received through ratepayer-funded energy efficiency programs.

Rebate incentives are typically used to buy down utility *retrofit* project costs for energy efficiency programs. The customer can receive the rebate directly from the utility, or the energy service company may assist in identifying programs that the small commercial business may qualify for and may collect the rebate on the customer's behalf.

Many utility companies employ demand side management (DSM) programs to help reduce energy consumption. These regulated programs benefit the customer by subsidizing the first cost of capital improvements that provide long-term energy and operational cost savings. Currently, energy efficiency rebates are only offered by specific electrical utilities and the respective rebate programs and requirements change frequently.

*Rising and Volatile Energy Prices.* Over the past decade, energy-linked commodity prices, including oil, gas, coal and electricity, have all increased and exhibited significant volatility. From 1999 to 2009, average U.S. retail electricity prices have increased by more than 50%.

*Aging and Inefficient Facility Infrastructure.* Many organizations continue to operate with an energy infrastructure that is significantly less efficient and cost-effective than what is now available through more advanced technologies applied to lighting, heating, cooling and other building systems. As these organizations explore alternatives for renewing their aging facilities, they often identify multiple areas within their facilities that could benefit from the implementation of energy efficiency measures, including the possible use of renewable sources of energy.

*Movement Toward Industry Consolidation.* As energy efficiency solutions continue to increase in technological complexity and customers look for service providers that can offer broad geographic and product coverage, we believe

smaller niche energy efficiency companies will continue to look for opportunities to combine with larger companies such as the Company that can better serve their customers' needs. Increased market presence and size of energy efficiency companies should, in turn, create greater customer awareness of the benefits of energy efficiency measures.

*Increased Use of Third-Party Financing.* Many organizations desire to use their existing sources of capital for core investments or do not have the internal capacity to finance improvements to their energy infrastructure. These organizations often require innovative structures to facilitate the financing of energy efficiency and renewable energy projects.

### **Castroville Sales and Marketing**

Castroville utilizes direct marketing through seven outside sales representatives, who are compensated with a base salary and commission, and relationships with utility representatives, program representatives and trade organizations to generate new projects. Castroville also maintains the following web sites: [www.BARefrigeration.com](http://www.BARefrigeration.com) (on-line commerce capabilities); [www.BayAreaRefrigeration.com](http://www.BayAreaRefrigeration.com) (redirects to [www.BARefrigeration.com](http://www.BARefrigeration.com)); [www.KeepYourCool.org](http://www.KeepYourCool.org) and [www.blueearthems.com](http://www.blueearthems.com).

## **Castroville Customers**

Castroville's key customers in 2009 were the Keep Your Cool utility rebate program, Ecology Action - Right Lights utility program, KEMA and San Francisco Energy Watch and third-party utility rebate programs. In 2010, the key customers were KEMA, Keep Your Cool, and Ecology Action-Right Lights utility program. In 2011, the key customers were KEMA, Keep your Cool, Ecology Action - Right Lights Program and PECEI - Energy Smart Jobs Program.

## **U.S. Energy Affiliates Financing Agreement**

On December 19, 2011, the Company entered into a Finance Agreement with US Energy Affiliates, Inc. ( USEA ). USEA is a finance company specializing in financing energy efficiency retrofit upgrades with a successful history of financing small businesses, such as gas stations with convenience stores, small hotels/motels and other small businesses. Pursuant to the terms of the Finance Agreement, USEA received 125,000 shares of restricted common stock of the Company, valued at an aggregate amount of \$188,750 or \$1.51 per share of common stock, the ten-day average closing price at the time of negotiations, in exchange for exclusivity in California through September 30, 2012. Exclusivity shall automatically be extended by meeting certain agreed upon performance criteria. USEA will continue to provide financing for the Company's energy efficiency and alternative energy projects in all market sectors throughout the U.S and Canada even if exclusivity for California ends. Following the exclusivity term, on a non-exclusive basis, USEA has agreed to finance Company projects throughout the United States and Canada, in all market sectors subject to certain USEA lending criteria.

## **Xnergy Sales and Marketing**

Since Xnergy is a multi-faceted company with more service offerings than most, there are several unique sales and marketing strategies that are used. These can be both very positive to the business model while being challenging to properly implement. Here is a summary of our sales approach for our varying capabilities:

### **ESCO: Energy Services Company**

For Xnergy as ESCO, our sales and marketing approach is to offer customers customized and all-encompassing energy efficiency solutions tailored to meet their economic, operational and technical needs. The sales process for these opportunities can take up to 24 months, with public agency / governmental customers tending to require the longest sales processes. We identify project opportunities through referrals, conferences, warm leads, cold calls and occasionally through requests for proposals. Our direct sales force develops and follows up on customer leads and, in

some cases, works with customers to develop their facility's energy strategies.

The Xnergy plan involves decreasing a facility's energy consumption and demand first through identification of Energy Conservation Measures (ECMs). Through our knowledge of the federal, state, local governmental and utility environment, we assess the availability of energy, utility or environmental-based incentives for usage reductions, which helps us optimize the economic benefits of a proposed project for a customer.

After we have identified and implemented these ECMs, the facility demand has been reduced and now we move on to the self-generation options that would benefit the customer. We can provide these projects turn-key to the customer. Depending on the particular scenario, we can engineer, install, commission, and maintain the system after it is installed. We also are able to offer financing options via lease or PPA's (Power Purchase Agreements). Through a PPA, we would finance the project, then sell the power to the client at a rate less than and/or more consistent than what they get from the utility.

After the project has been completed our Operations & Maintenance group can service and maintain the equipment that was installed. This added value helps ensure our clients that Xnergy wants to be a partner for life and will stand by our projects.

***General Contractor***

Xnergy offers engineering, construction, and construction management services to a variety of industries. Xnergy has tradesmen that perform the majority of work for most projects. The trades which are most prevalent for us:

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Mechanical

.

Pipefitting/plumbing

.

Electrical

.

Framing/drywall

.

Concrete

Our ability to self-perform these trades enables us to keep costs down for our customers by not having the third-party markups adding margin into projects.

Having engineering and construction capabilities in-house enables Xnergy to provide complete turn-key projects to our clients. Having these abilities also makes it a natural fit for us to perform design-build projects, which save our customers money while also enabling the projects to have the minimum number of challenges/issues.

Knowing our strengths and the types of facilities that most benefit from our services allow us to concentrate sales and marketing efforts on industries such as life sciences, semi-conductor, and other high-technology organizations. We are active participants in associations that involve professionals from these target companies, and use these as networking opportunities to help increase sales leads.

***Service: Operations & Maintenance***

Xnergy offers O&M services for HVAC and energy systems. We offer traditional HVAC services including repairs, retrofits, and preventive maintenance contracts. These contracts can be year-to-year or multi-year. We also offer PM agreements which essentially provide the client warranty coverage if any of the components we are maintaining break down.

***Commissioning***

Our sales and marketing approach for commissioning is similar to our General Construction and Service segments in terms of the target markets. The Xnergy commissioning group, labeled Benchmarcx, performs energy audits, HVAC testing and balancing, and system start-up for all construction and energy projects. Benchmarcx is able to target other general and mechanical contractors that do not have the in-house commissioning capabilities so Benchmarcx can market itself to them. This is done through direct sales and marketing efforts. In addition to these targets, Benchmarcx also focuses on the end-users directly. These include clients occupying space where commissioning is more critical, such as labs, clean rooms, and manufacturing suites.

**Competition**

***Castroville***

The clean-tech industry is highly competitive. The energy efficiency segment for small commercial businesses is also highly competitive. Castroville competes with various types and sizes of companies ranging from local and national service providers, local refrigeration contractors, such as Egain and Energywise and rebate program administrators. Castroville differentiates itself as the only fully-licensed, comprehensive contractor in Northern California which sells and installs energy efficiency projects through utility rebate programs, and which contracts directly with utilities, allowing it to perform retrofit services and secure rebates for its small and large customers who operate locations served by multiple utilities.

Few contractors in Castrovilla's market area actually participate in the third-party program process. The reluctance is attributable to the considerable amount of paperwork required for each project. Having completed thousands of applications, however, Castrovilla is accustomed to preparing the appropriate documents. Because of the new comprehensiveness requirement for refrigeration projects, several of the previously participating companies are no longer qualified. Finally, both the utilities and the third-party administrators have become stricter about contractor participation requirements, which is actively removing unqualified and unscrupulous vendors. As a contractor who is regularly contacted by the utilities and the third-party program administrators to repair issues left behind by others, Castrovilla's reputation is among the best.

We intend to compete based on the following:

*Comprehensive Service Provider.* We offer to our customers expertise in addressing almost all aspects of energy efficiency. Our staff from acquired companies is expected to provide the capability and flexibility to determine what energy efficiency measures are best suited to achieve the customer's energy efficiency and environmental goals.

*Independence.* We are an independent company with no affiliation to any equipment manufacturer, utility or fuel company. Unlike affiliated service companies, we have the freedom and flexibility to be objective in selecting particular products and technologies available from different acquisition candidates and suppliers in order to optimize our solutions for customers' particular needs.

*Experienced Management.* Our executive officers each has almost 30 years of experience in founding, acquiring and operating publicly held companies in diverse business sectors.

*Federal and State Qualifications.* The federal governmental program under which federal agencies and departments can enter into ESPCs requires that energy service providers have a track record in the industry and meet other specified qualifications. Over 20 states require similar qualifications. We intend to acquire companies which meet these qualifications. This will provide us with the opportunity to continue to grow our business with federal, state and other governmental customers and differentiates us from energy efficiency companies that have not been similarly qualified.

*Federal.* In 2007, the United States enacted the Energy Independence and Security Act which mandates that federal buildings reduce energy consumption by 30% by 2015 compared to their 2003 baseline and contains multiple provisions promoting long-term ESPCs. The U.S. Department of Energy also has a number of research, development, grant and financing programs - most notably the DOE Loan Guarantee Program - to encourage energy efficiency and renewable energy. Additionally, the United States has adopted federal incentives for renewable energy, including the



production tax credit, investment tax credit and accelerated depreciation.

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*States.* At the U.S. state level, significant measures to support energy efficiency and renewable energy have been implemented, including as of December 31, 2009, the following:

o

20 states have adopted energy efficiency resource standards, or EERS, and long-term energy savings targets for utilities.

o

29 U.S. states and the District of Columbia have renewable portfolio standards, or RPS, in place, and six states have renewable portfolio goals.

o

14 states have passed legislation enabling a new financing mechanism known as Property Assessed Clean Energy (PACE) Bonds. The bonds provide funds that can be used by commercial and residential property owners to finance efficiency measures and small-scale renewable energy systems.

*Economic Stimuli.* Governments worldwide have allocated significant portions of economic stimuli to clean energy. The American Recovery and Reinvestment Act of 2009 allocated \$67 billion to promote clean energy, energy efficiency and advanced vehicles. Additionally, the Emergency Economic Stabilization Act instituted a grant program that provides cash in lieu of the investment tax credit for eligible renewable energy generation sources which commence construction in 2010.

Key factors in the award of contracts include system and service performance, quality, price, design, reputation, technology, application engineering capability and energy management services. Competitors for contracts in the small commercial businesses marketplace include many local, regional, national and international companies with greater resources than we have.

The domestic energy services market for small commercial businesses is *highly fragmented*, which we believe, provides a viable point-of-entry for acquiring established, reputable, profitable energy services companies who are seeking access to growth capital and innovative, commercially proven, cost-effective energy efficient technologies.

There are three principal types of energy efficiency companies:

*Independent Energy Services Companies* - Energy efficiency companies such as the Company, which are not associated with an equipment manufacturer, utility or fuel company. Most of these companies are small and focus either on a specific geography or specific customer base.

*Utility-Affiliated Energy Services Companies* - Companies owned by regulated North American utilities, many of which were traditionally focused on the service territories of their affiliated utilities, but have since expanded their geographical markets. Examples include Constellation Energy Projects and Services and ConEdison Solutions.

*Equipment Manufacturers* - Companies owned by building equipment or controls manufacturers. Many of these companies have a national presence through an extensive network of branch offices. Examples include Honeywell, Johnson Controls and Siemens.

*Xnergy*

The energy services segment for non-residential customers and utility scale projects is highly fragmented and also highly competitive on a local, regional and national basis. Xnergy competes with various types and sizes of companies ranging from local energy and mechanical services providers including Pacific Rim Mechanical and Apex Mechanical and national energy services providers such as Johnson Controls, Inc. and Ameresco. Xnergy has only a few competitors in the Life Sciences portion of its business including Pacific Building Group and DBC Inc. on a local basis and DPR Construction on a regional and national basis. The competitors in the engineering, procurement and construction (EPC)/alternative energy segment of its business include AECOM, Chevron Energy Solutions on a national basis and solar project installers including Borrego Solar, Helio Power and Sullivan Solar among others on a local basis. Also, several Chinese solar panel manufacturers have begun to provide EPC services as part of their vertical market strategy. The competitors for our commissioning business activities include KEMA, Inc. and MBO, Inc.

Xnergy differentiates itself from its competitors in a number of ways, including providing its customers with an in-depth array of turnkey services and energy efficient products. Xnergy is technology neutral and diligently seeks to locate and provide its clients with the most beneficial technology that is currently available. Xnergy is also unique in its capability to install solar, cogeneration, fuel cells, geothermal and wind-powered systems. The majority of its competitors specialize in designing or installing only one of these types of energy systems. Also in contrast to several of its competitors, Xnergy offers complete engineering and energy analysis (energy auditing or retro-commissioning) to ensure its clients are using their existing energy in the most efficient manner prior to designing an alternative energy option. Xnergy also differentiates itself by being fully licensed and self-performing most of the major and critical trades including electrical, piping, HVAC, plumbing and general construction work. Being vertically integrated with its Service Group allows Xnergy to offer complete after construction O & M services through the life of the energy asset.

### ***Water Recovery***

The dewatering business is highly competitive. GFS expects to depend on government contracts for a significant portion of its business. Competition for government contracts depends upon its ability to satisfy bidding requirements, as well as subcontracting requirements in the event that GFS is a subcontractor to a prime contractor. Many larger more well capitalized companies may be able to satisfy the financial, size, equipment, employment, bonding, certification, track record, and other government regulatory requirements more readily than GFS is able to. Typical competitors are represented by the following companies:

GFS will directly market services to government and other users, and licensing its technology to others. GFS intends to initially focus its efforts on the United States, Europe and the Pacific Rim.

GFS may provide the equipment and training necessary to launch projects while retaining ownership of equipment and intellectual property. By seeking to cultivate strategic relationships with large, established companies in various regions of the world, GFS believes it can grow more quickly than establishing offices throughout the world.

### **Government and Environmental Regulation**

#### ***Energy Efficiency***

Various regulations will affect the conduct of our business. Federal and state legislation and regulations enable us to enter into ESPCs with government agencies in the United States. The applicable regulatory requirements for ESPCs differ in each state and between agencies of the federal government.

Our projects must conform to all applicable electric reliability, building and safety, and environmental regulations and codes, which vary from place to place and time to time. Various federal, state, provincial and local permits are required to construct an energy efficiency project or renewable energy plant.

### ***Water Recovery***

GFS operations are subject to various environmental laws and regulations related to, among other things: dredging operations; the disposal of dredged material; protection of wetlands; storm water and waste water discharges; and, transportation and disposal of hazardous substances and materials. GFS is also subject to laws designed to protect certain marine species and habitats. GFS projects may involve transportation and disposal of hazardous waste and other hazardous substances and materials. Various laws strictly regulate the removal, treatment and transportation of hazardous substances and materials and impose liability for human health effects and environmental contamination caused by these materials.

### **Intellectual Property**

The Company has applied for trademarks for the names *eecoStation*<sup>™</sup> and *eecoSmart*<sup>™</sup>. GFS has invested significantly in the development of proprietary technology and also to establish and maintain an extensive knowledge of the leading technologies, and incorporate these technologies into the RDS and the services that GFS offers and provides to its customers. GFS holds a patent, which expires in 2021, that covers the European Union, China, South Africa, Eurasia and New Zealand; a patent pending in the United States, which is expected in the next 12 months; and, a number of other patent applications. GFS believes that it holds adequate rights to all intellectual property used in its business and that it does not infringe upon any intellectual property rights held by other parties.

## Employees

As of August 13, 2012, Blue Earth, Inc. had three employees, consisting of its two executive officers and one administrative person. Castrovilla, Inc. had 29 full-time, non-union employees, including its President, John Pink and no part-time employees. Castrovilla employees include 3 key management, 5 in administration, 10 technicians who perform product installation and field service, 8 engaged in sales and marketing and 3 in shop/gasket manufacturing.

Xnergy had 36 full-time non-union employees, and no part-time employees. Xnergy employees include 9 key management, including its Chief Executive Officer and Chief Operating Officer, 3 in sales and business development, 5 in service operations and 19 in construction operations. HVAC Controls & Specialties, Inc. had 10 full-time non-union employees and no part-time employees. HVAC employees include 2 key management including its President, 1 in Sales and Marketing, 6 technicians and 1 in administration.

The Company expects to continue to use subcontractors and independent consultants until such time as further acquisitions are made.

## Properties

The Company's executive offices are located at 2298 Horizon Ridge Parkway, Suite 205, Henderson, NV 89052; Tel (702) 263-1808. The Company entered into a 37 month lease for the facility commencing in December 2010 at a monthly rental of \$3,000 for approximately 2,500 square feet of office space. Castrovilla's executive offices are located at 253 Polaris Avenue, Mountain View, California under a lease ending on June 30, 2012. The monthly rental is \$5,000 for approximately 7,300 square feet of space, which features one conference room and shop and can accommodate three crews per day manufacturing gaskets. Castrovilla's fixed assets include numerous vehicles; minor machinery and equipment such as gasket welders, a gasket sealing stand and jigs, a fume exhauster and blower, and office equipment.

Xnergy's executive offices are located at 2721 Loker Avenue, West Carlsbad, CA 92010. The monthly rental is \$22,000 for approximately 16,672 square feet of manufacturing and office space. Pursuant to a Letter of Intent for Terms and Purchase of Gosselin's Investment in Xnergy (the Term Sheet), dated June 17, 2008, Xnergy's management, D. Jason Davis and Joseph Patalano, severed or amended all business relationships with a co-founder, Jeff Gosselin. Xnergy is paying Gosselin \$22,000 per month for rent on its premises. See Legal Proceedings below.

## Legal Proceedings

From time to time, the Company may become involved in litigation relating to claims arising out of its operations in the normal course of business. Except as described below, no legal proceedings, government actions, administrative actions, investigations or claims are currently pending against us or involve the Company which, in the opinion of the management of the Company, could reasonably be expected to have a material adverse effect on its business or financial condition.

In June 2010, D. Jason Davis and Joseph Patalano, Xenergy's management, commenced a lawsuit in the Superior Court of the State of California for the County of San Diego (Case No. 37-2010-00066050-CU-CO-EC) against Jeff Gosselin, a co-founder and former shareholder of Xenergy (the Action).

On December 28, 2011, the Company entered into a Capital Stock Purchase and Lease Agreement with D. Jason Davis, Joseph Patalano, Jeff Gosselin, CJ3 LLC, a California limited liability company (CJ3), Xenergy, Inc. and Cheryl Gosselin, the material terms of which are as follows:

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The Company settled all disputes in connection with the Action between Xenergy and Jeffrey Gosselin.

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All unresolved issues involve the other parties and they have agreed to submit to arbitration disputes arising from a 2008 agreement by and among Gosselin, Xenergy, Davis and Patalano.

The Company agreed to purchase Gosselin's shares of common stock of Xnergy previously contracted to purchase by Davis and Patalano. The Company had previously made payments in the amount of \$193,823.84 in connection with this obligation.

The remaining balance of the purchase of Xnergy common stock from Gosselin is being paid pursuant to a promissory note issued by the Company to Gosselin, dated as of November 5, 2011, in the principal amount of \$1,357,358.41 (the Note). The Note accrues interest at 7.75% per annum and is payable in monthly installments of \$48,455.96 until the principal and interest are paid in full. The Note is secured by shares of common stock of the Company, the amount of which will be equal to the average closing price of the Company's common stock for the ten trading days prior to the date of any default by the Company.

The parties agreed to mutually indemnify and hold harmless the other parties, on the one hand for Gosselin, from any claims arising from the Company's operations, and on the other hand for the Company, from any and all claims arising from Gosselin's action or inactions related to the Agreement.

In December of 2011, the Company was served with a third party complaint to bring the Company into a vendor lawsuit between Genesis, the private company formerly a subsidiary of the Company, and Eagle North America, Inc., also known as Press Rentals. Press Rentals and Genesis have a lawsuit involving the payment of about \$55,000 in rental charges, with an additional \$108,000 for legal fees. Genesis has brought the Company into the lawsuit, alleging that the Company has an obligation due to its prior subsidiary status. On August 31, 2012, the Court issued an order to dismiss the case against the Company without prejudice.

There are no proceedings in which any of the directors, officers or affiliates of the Company, or any registered or beneficial stockholder, is an adverse party or has a material interest adverse to that of the Company.

## MANAGEMENT



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Set forth below is certain information regarding our executive officers and directors. Each of the directors listed below was elected to our board of directors to serve until our next annual meeting of stockholders or until his (her) successor is elected and qualified. All directors hold office for one-year terms until the election and qualification of their successors. The following table sets forth information regarding the members of our board of directors and our executive officers:

<b>Name</b>	<b>Age</b>	<b>Position with the Company</b>
Laird Q. Cagan	53	Chairman of the Board of Directors
Johnny R. Thomas, Ph.D.	71	Chief Executive Officer, Interim Chief Financial Officer, President and a Director
John C. Francis	63	Vice President of Corporate Development and Investor Relations

*Laird Q. Cagan, Director.* Mr. Cagan has served as a director of the Company since February 21, 2011. He is an investor in the Company who has served as a director and officer of several publicly traded companies. He has 20 years of experience in investing in and building high growth technology companies as well as 5 years in the investment banking industry. During the 1990 s he invested in and helped build 15 high tech companies with over \$500 million of equity capital invested in those companies. He is a co-founder and Managing Director of Cagan McAfee Capital Partners, LLC ( CMCP ) a private investment firm and merchant bank he founded in 2002. CMCP has founded, funded and taken public 10 companies in a variety of industries including energy, alternative energy, healthcare, information technologies, and environmental. CMCP portfolio companies have raised over \$600 million of equity capital and over \$2 billion of capital has been invested in those companies or their projects. Mr. Cagan previously worked for the two of the largest investment banks in the world, Goldman, Sachs & Co. and Drexel Burnham Lambert. In all, he was involved in over 30 transactions valued at more than \$15 billion, bankruptcy work-out transactions of more than \$2 billion, and a variety of equity, high-yield bond and senior debt financings. Mr. Cagan was the founding Chairman of Evolution Petroleum Corporation (AMEX: EPM), a company he founded to develop mature oil & gas fields with advanced technologies. He is a director and founder of Calpian, Inc. (CLPI.OB) and Career College Holding Co., Chairman and founder of Global Carbon Group, and a former director of AE BioFuels, Inc. (AEBF.PK) and Camac Energy, Inc. (AMEX: CAK). Mr. Cagan is licensed with FINRA under Series 24, 7 and 63, and is currently a registered representative and Managing Director of Colorado Financial Services Corporation ( CFSC ), a FINRA-licensed broker-dealer. CFSC is not affiliated with CMCP. Mr. Cagan attended M.I.T. and received a BS, MS and MBA from Stanford University. He is a graduate of the UCLA Director s Training Program. He is the founding Chairman of the SF Bay chapter of the Young Presidents Organization. He is a former member of the Stanford University Athletic Board and is a member of the Olympic Club, the oldest athletic club in America.

*Johnny R. Thomas, Chief Executive Officer and President.* Dr. Thomas has been a director of the Company since February 22, 2011. He has been employed by the Company as Chief Executive Officer and President since September 1, 2010. Prior thereto, he served as Chairman of the Board, Chief Executive Officer and President of Consolidation Services, Inc. (OTCBB:CNSV) from that company s inception on January 26 ,2007 until April 2, 2010. The company was engaged in the acquisition of land and mineral rights in Eastern Kentucky and is now engaged in oil and gas production. From January 2000 until September 2010, Dr. Thomas was self employed as an investor in securities, real estate and limited custom home development. From January 2000, Dr. Thomas had been a managing member of Falcon Financial Group, LLC, financial consultants; which has suspended its operations as of December 31, 2008 and is inactive at this time. Prior thereto, he was a founder and served as Chairman of the Board and CEO of AgriBioTech, Inc. from September 1993 until February 1999. AgriBioTech and several of its subsidiaries filed a voluntary petition for bankruptcy in January 2000 (and was subsequently liquidated in Chapter 7), approximately eleven months following Dr. Thomas s departure from the Company. Dr. Thomas received his Ph.D. in genetics/plant breeding from Oregon State University in 1966.

*John C. Francis, Vice President of Corporate Development and Investor Relations.* Mr. Francis has been employed by the Company since September 2010. Prior thereto, he served as Vice President, Chief Financial Officer and a director of Consolidation Services, Inc. from its formation on January 26, 2007, and as Secretary/Treasurer from September 16, 2008 until April 2, 2010. John C. Francis is an entrepreneur, investor and founder, director and executive officer of several publicly traded and privately-held companies in diverse businesses including medical technologies, environmental technologies, agricultural technologies, media, export/import and real estate. Mr. Francis's business experience spans more than thirty-five years. From January 2000 to 2008, Mr. Francis was a co-founder and managing member of Falcon Financial Group, LLC, a privately held company engaged in providing

assistance and advice to private companies on capital formation, corporate governance and corporate communications. He has also served as a founder, director, president, chief executive officer of Hunapu, Inc., which was a public blank check development stage company. Mr. Francis also founded and was an officer and director of FiberChem, Inc., a start-up company engaged in the research, development, marketing and distribution of fiber optic chemical sensors for environmental monitoring. He served as Chief Financial Officer (from April 1994 to April 1996), and vice-president, secretary and director (April 1994 through January 1999) of AgriBioTech, Inc. AgriBioTech and several of its subsidiaries filed a voluntary petition for bankruptcy on January 2000 (and was subsequently liquidated in Chapter 7), approximately eleven months following Mr. Francis' departure from the Company.

There are no family relationships among any of our directors and executive officers.

### **Energy Efficiency Advisory Board**

The Company has organized an Energy Efficiency Advisory Board ( EEAB ) with an initial provision for up to ten (10) members. The members of the EEAB are expected to have different energy efficiency backgrounds. These categories include, but are not limited to, HVAC, lighting and refrigeration, international relationships, energy management programs and verification, technologies, political/public regulatory commission experience (both State and Federal), utilities contacts and expertise.

The members of the EEAB will advise and consult with Management, and the Board of Directors, on an informal basis from time to time on business matters in their respective areas of expertise and will be reimbursed for expenses in attending meetings. Each advisor will receive 15,000 non-qualified stock options at the then current fair market value as their compensation and are expected to sign three-year agreements. Members will also be paid consulting fees normally charged by such persons for additional work performed at the Company s request.

Each member of the EEAB is expected to devote only a small portion of his time to the Company s affairs. Members of the EEAB are employed by employers other than the Company (or are retired) and accordingly will have no fiduciary duty to the Company. The Company s need for the expertise of a particular member of the EEAB will depend on the development of the Company s technologies and any acquisitions made. Accordingly, members of the EEAB as such, have no formal duties, authority or management obligations. Each of the members of the EEAB will agree to keep confidential information provided to them.

The following person currently comprises the EEAB:

*Dale Gustavson*, age 64, joined the EEAB on December 14, 2010. Building on a foundation that included having sold hundreds of turnkey energy management projects for an energy management service provider during the 1980s, for the 20 years since, Dale Gustavson has worked as an energy efficiency programs and policy consultant to HVAC contractors, distributors and manufacturers, utilities, and government agencies. An oft-published writer, author and speaker, his clients have included: Air conditioning Contractors of America ( ACCA ), California Public Utilities Commission, Honeywell Incorporated, Los Angeles Department of Water & Power, National Energy Management Institute, New York State Energy Research & Development Agency, and Southern California Edison. Among key volunteer posts he has been serving as: Member of the Technical Advisory Committee to the California Board for Energy Efficiency, Advisory Board of the California Commissioning Collaborative, and National Board Member of the Association of Professional Energy Managers.

*Robert Leebern, Jr.*, age 42 joined the EEAB on December 14, 2010. Mr. Leebern is a principal of Troutman Sanders Strategies. He has more than a decade of public policymaking and political experience, as well as a breadth of federal legislative and regulatory knowledge and expertise. In 2003, Mr. Leebern launched the firm's federal affairs division, building a successful, bipartisan governmental affairs practice. Currently, Mr. Leebern and the federal affairs team serve as Washington representatives to Fortune 500 companies, municipal and county governments, universities, and a number of other business interests. Mr. Leebern has been active on a wide array of issue areas including agribusiness, natural resources, energy, environment, immigration, health, education, technology, transportation and infrastructure. Mr. Leebern has worked with the Executive Branch and various federal agencies advocating policy issues, infrastructure projects and legislative priorities. Familiar with the federal and state legislative and regulatory processes, he has worked on a variety of projects with U.S. Senators, Congressmen, Congressional Committees, Governors' staffs, state regulatory agencies, and members of the state legislature to produce significant results for clients. For 10 years, he served as top political aide and Chief of Staff to former Congressman and current U.S. Senator Saxby Chambliss (R-GA). Leebern has served on the Troutman Sanders Strategies Board of Directors since 2003 and is a Board member of the Troutman Sanders LLP Political Action Committee.

Mr. Gustavson's and Mr. Leebern's contracts with the Company are each for three years and may be terminated with or without cause upon thirty (30) day's prior written notice. They each received a 15,000 share ten-year stock option exercisable immediately at \$1.70 per share and will be reimbursed for their expenses.

### **Director or Officer Involvement in Certain Legal Proceedings**

Our directors and executive officers were not involved in any legal proceedings as described in Item 401(f) of Regulation S-K in the past ten years.

### **Directors' and Officers' Liability Insurance**

We have directors' and officers' liability insurance insuring our directors and officers against liability for acts or omissions in their capacities as directors or officers, subject to certain exclusions. Such insurance also insures us against losses which we may incur in indemnifying our officers and directors. In addition, we have entered into indemnification agreements with key officers and directors and such persons shall also have indemnification rights under applicable laws, and our certificate of incorporation and bylaws.

### **Board Leadership Structure and Role in Risk Oversight**

Although we have not adopted a formal policy on whether the Chairman and Chief Executive Officer positions should be separate or combined, we have determined that it is in the best interests of the Company and its shareholders to keep these roles separate.

Our Audit Committee is primarily responsible for overseeing our risk management processes on behalf of our board of directors. The Audit Committee receives and reviews periodic reports from management, auditors, legal counsel, and others, as considered appropriate regarding our company's assessment of risks. In addition, the Audit Committee reports regularly to the full Board of Directors, which also considers our risk profile. The Audit Committee and the full Board of Directors focus on the most significant risks facing our company and our company's general risk management strategy, and also ensure that risks undertaken by our Company are consistent with the Board's appetite for risk. While the Board oversees our company's risk management, management is responsible for day-to-day risk management processes. We believe this division of responsibilities is the most effective approach for addressing the risks facing our company and that our Board leadership structure supports this approach.

## **Independent Directors**

We believe Laird Cagan is an independent director, as that term is defined by listing standards of the national exchanges and SEC rules, including the rules relating to the independence standards of an audit committee and the non-employee director definition of Rule 16b-3 of the Exchange Act.

## **Committees of the Board of Directors**

On October 30, 2009, the board of directors adopted charters relative to its audit committee, compensation committee and nominating committee. Until such time as we add more members to the Board, the entire Board will determine all matters and no Committees have been formed. We intend to appoint persons to the board of directors and committees of the board of directors as required to meet the corporate governance requirements of a national securities exchange, although we are not required to comply with these requirements until we elect to seek listing on a national securities exchange. We intend to appoint directors in the future so that we continue to have a majority of our directors who will be independent directors, and of which at least one director will qualify as an audit committee financial expert, within the meaning of Item 407(d)(5) of Regulation S-K of the SEC.

### **Audit Committee**

The audit committee's duties are to recommend to our board of directors the engagement of independent auditors to audit our financial statements and to review our accounting and auditing principles. The audit committee reviews the scope, timing and fees for the annual audit and the results of audit examinations performed by independent public accountants, including their recommendations to improve the system of accounting and internal controls. The audit committee oversees the independent auditors, including their independence and objectivity. However, the committee members are not acting as professional accountants or auditors, and their functions are not intended to duplicate or substitute for the activities of management and the independent auditors. The audit committee is empowered to retain independent legal counsel and other advisors as it deems necessary or appropriate to assist the audit committee in fulfilling its responsibilities, and to approve the fees and other retention terms of the advisors. Our audit committee member possesses an understanding of financial statements and generally accepted accounting principles. The Company does not currently have an audit committee financial expert. The Company and its board of directors have yet to identify a suitable candidate to serve as the audit committee financial expert due to the small size of the Company and its limited reporting history, however, the Company intends to appoint an audit committee financial expert as soon as it is practical.

### **Compensation Committee**

The compensation committee has certain duties and powers as described in its charter, including but not limited to periodically reviewing and approving our salary and benefits policies, compensation of our executive officers, administering our stock option plans, and recommending and approving grants of stock options under those plans.

### **Nominating Committee**

The nominating and corporate governance committee considers and makes recommendations on matters related to the practices, policies and procedures of the board of directors and takes a leadership role in shaping our corporate governance. As part of its duties, the nominating and corporate governance committee assesses the size, structure and composition of the board of directors and its committees, coordinates evaluation of board performance and reviews board compensation. The nominating and corporate governance committee also acts as a screening and nominating committee for candidates considered for election to the board of directors.

### **Compensation Committee Interlocks and Insider Participation**



None of our directors or executive officers serves as a member of the board of directors or compensation committee of any other entity that has one or more of its executive officers serving as a member of our board of directors.

### **Director Compensation/Consulting Agreement**

Upon his joining the Board of Directors, Laird Cagan was granted 100,000 restricted shares of Common Stock with one-half vested immediately and one-half upon the first anniversary date. Mr. Cagan also entered into a two-year consulting agreement under which he was granted warrants to purchase 500,000 shares of Common Stock exercisable at \$1.24 per share (the average Closing market price for the prior ten trading days). The warrants vest 62,500 per quarter for the two-year-period beginning on the effective date of the consulting agreement and are exercisable for ten years, as amended.

### **Executive Compensation**

#### **Summary Compensation Table for Discontinued Operations**

The table below sets forth, for the last three fiscal years, the compensation earned by (i) each individual who served as our principal executive officer or principal financial officer during the last fiscal year, all of whom resigned on or before the August 31, 2010 spin-off, and (ii) our most highly compensated executive officer, other than those listed in clause (i) above, who was serving as executive officers at the end of the last fiscal year (together, the Named Executive Officers ). No other executive officer had annual compensation in excess of \$100,000 during the last fiscal year.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Option Awards (\$)	All Other	
					Compensation (\$)	Total (\$)
Dr. Johnny R. Thomas, Chief Executive Officer	2011	167,792(1)	-	-	-	\$167,792
Michael Hodges, Former Chairman of The Board of Directors of the Company and Interim Chief Executive Officer (3) (4)	2010	33,000 (2)	-	\$198,792	-	\$231,792
	2011	-	-	-	-	-
Shelby Little, Former Chief Executive Officer (6)	2010	\$54,999	-	-	-	\$54,999
	2009	\$30,000	-	\$279,365	\$71,615 (5)	\$380,980
	2011	-	-	-	-	-
Carol Shobrook, Former Chief Operating Officer (7)	2010	\$37,683	-	-	-	\$37,683
	2011	-	-	-	-	-
	2010	\$13,500	-	-	-	\$13,500

(1)

Consists of \$ 143,792 cash paid to Dr. Thomas and \$2,000 per month, or an aggregate of \$24,000, withheld in the payment of the exercise price of 24,000 warrants.

(2)

On September 1, 2010, Johnny R. Thomas was elected Chief Executive Officer of the Company. Consists of \$25,000 cash paid to Dr. Thomas and \$2,000 per month, or an aggregate of \$8,000, withheld in payment of the exercise price of 8,000 warrants. On September 1, 2010, Johnny R. Thomas was elected Chief Executive Officer of the Company. Consists of \$25,000 cash paid to Dr. Thomas and \$2,000 per month, or an aggregate of \$8,000, withheld in payment of the exercise price of 8,000 warrants.

(3)

Consists of (i) \$44,500 that was paid to Mr. Hodges for consulting services performed for Genesis Fluid Solutions and (ii) \$22,498 miscellaneous expense reimbursement.

(4)

Mr. Hodges (as well as various other employees) ceased being paid by the Company on May 20, 2010 when the Board began negotiations to spin-off support Genesis Fluid Solutions, Inc. However, he continued to serve as interim Chief Executive Officer of the Company and maintained full operations of the Company until he resigned from all positions with the Company effective as of August 31, 2010.

(5)

Consists of (i) \$70,500 that was paid to Mr. Hodges for consulting services performed for Genesis Fluid Solutions and (ii) \$1,115 in life insurance policy premiums that were paid by the Company on behalf of Mr. Hodges.

(6)

Mr. Little was appointed as the Company's Chief Financial Officer effective December 15, 2009. Effective February 14, 2010, Mr. Little was no longer serving as the Company's Chief Financial Officer and was no longer affiliated with the Company.

(7)

Ms. Shobrook was appointed as the Company's Chief Operating Officer effective November 15, 2009. Effective February 5, 2010, Ms. Shobrook was no longer serving as our Chief Operating Officer and is no longer affiliated with the Company.

*Outstanding Equity Awards at Fiscal Year-End*

Other than as set forth below, there were no outstanding unexercised options, unvested stock, and/or equity incentive plan awards issued to our named executive officers as of December 31, 2011.

Name	Number of Securities Underlying Unexercised Warrants	Number of Securities Underlying Unexercised Warrants	Number of Securities Underlying Warrant	Exercise Price (\$)	Expiration Date	Number of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested (\$)	Number of Other Rights That Have Not Vested (#)	Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)	<u>Option Award</u>	Stock Award	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested
										Equity Incentive Plan Awards:	Equity Incentive Plan Awards:	Equity Incentive Plan Awards:
Johnny R. Thomas	500,000	-	500,000(1)	1.00	09/01/2020	500,000	150,000	500,000				\$150,000
	1,000,000(3)	-	1,000,000	1.25	03/01/2016	1,000,000	-	1,000,000				(2) \$1,000,000
	500,000	-	500,000(1)	1.00	09/01/2020	500,000	150,000	500,000				

John C. Francis							\$150,000
							(2)
	1,000,000(3)	-	1,000,000	1.25	03/01/2016	1,000,000	- 1,000,000 \$1,000,000

(1)

Shares issuable upon exercise of management warrants assigned by each of Johnny R. Thomas and John C. Francis to affiliates for estate planning purpose and for which warrants and underlying shares Messrs. Thomas and Francis disclaim beneficial ownership, although included in the above table since the warrants were issued pursuant to their respective employment agreements. These Warrants are exercisable for ten (10) years at \$1.00 per share. The first 100,000 warrants vested upon grant, the next 150,000 warrants vested on October 31, 2010, the next 250,000 warrants vested on September 1, 2011, the next 500,000 warrants vested on September 1, 2012, while the remaining 500,000 warrants vest on September 1, 2013. The vesting schedule accelerates to full vesting upon the Company achieving aggregate revenue of \$12,500,000 for two consecutive quarters and the Company records a pre-tax net profit for such two quarters. These warrants also vest when the holders exercise the warrants and purchase Common Stock.

(2)

The Closing Price of the Company's Common Stock on December 31, 2011 was \$1.30 per share.

(3)

Shares issuable upon exercise of 1,000,000 performance warrants assigned by each of Johnny R. Thomas and John C. Francis to effectuate for estate planning purposes and for which warrants and underlying shares Messrs. Thomas and Francis disclaim beneficial ownership, although included in the above table, since the warrants were issued for services rendered. These warrants were granted on March 1, 2011 and are exercisable for five (5) years at \$1.25 per share. These Warrant shall vest and become exercisable according to the following schedule if and when the Company achieves the following revenue, net income/share and EBITDA/share performance criteria for four (4) trailing fiscal quarters:

Performance Vesting Criteria, percentages show the relative weighting  
of each Criteria for that Vesting Period

# of Warrants	Revenue (\$)	Net Income/share	EBITDA/Share
250,000	\$200 Mil. (25%)	\$0.50 (50%)	\$1.00 (25%)
250,000	\$150 Mil. (40%)	\$0.40 (25%)	\$0.80 (35%)
250,000	\$100 Mil. (50%)	\$0.30 (15%)	\$0.60 (35%)
250,000	\$50 Mil. (50%)	\$0.20 (15%)	\$0.40 (35%)

Any warrants not vested on a date when a portion of the warrants are vested shall be added to the next 250,000 increment/milestone for potential vesting at the next set of milestones/benchmarks. These warrants also vest when the holders exercise the warrants and purchase Common Stock.

### Employment Agreements

There are no material plans, contracts or arrangements pursuant to which Messrs. Thomas or Francis is a party or in which he participates other than those available to all officers and directors of the Company, and as follows:

On August 31, 2010, the Company entered into an "at will" employment agreement, effective as of September 1, 2010, with Dr. Johnny R. Thomas, as Chief Executive Officer and President of the Company. Dr. Thomas' base salary was initially Ninety Nine Thousand Dollars (\$99,000.00) per annum. He is eligible to receive a bonus to be established by the Compensation Committee of the Board of Directors for extraordinary performance. Dr. Thomas was granted warrants to purchase an aggregate of one (1) million shares of Common Stock, exercisable for ten (10) years at \$1.00 per share. The first 100,000 warrants vested upon grant, and the next 150,000 warrants vested on October 31, 2010, while the remaining 750,000 warrants vest in three equal installments on the first, second and third anniversaries of the signing of the employment agreement. The vesting schedule accelerates to full vesting upon the Company achieving aggregate revenue of \$12,500,000 for two consecutive quarters and the Company records a pre-tax net profit for such two quarters. These warrants also vest when Dr. Thomas exercises the warrants and purchases Common Stock. The agreements provides for a non-competition and non-solicitation period of one-year from the termination of employment.

On August 31, 2010, the Company entered into an at will employment agreement, effective as of September 1, 2010, with John C. Francis, as Vice-President, Corporate Development and Investor Relations of the Company. Mr. Francis's base salary was initially Seventy-Five Thousand Dollars (\$75,000.00) per annum. All other terms of employment are the same as set forth in Dr. Thomas' agreement described above.

On March 1, 2011, the Board of Directors of the Company amended the employment agreements of Dr. Johnny R. Thomas and John C. Francis. Each of their employment agreements dated September 1, 2010 were amended effective February 1, 2011, to increase their annual salaries by \$75,000. Johnny R. Thomas's salary increased from \$99,000 to \$174,000 and John Francis's salary from \$75,000 to \$150,000.

Johnny R. Thomas and John C. Francis were each awarded five-year performance warrants to purchase 1,000,000 shares each at an exercise price of \$1.25 per share. The warrants will vest if and when the Company achieves certain revenues, net income and/or EBITDA milestones for four trailing quarters. For each executive officer, a total of 412,500 warrants vest upon four different milestones when annual revenues exceed revenue milestones increasing from \$50 to \$200 million. Achieving net income levels in excess of \$0.20/share to more than \$0.50/share will vest 262,500 warrants upon four different milestones. The remaining 325,000 warrants will vest upon four different milestones when the Company's EBITDA performance exceeds \$0.40/share to more than \$1.00 per share.

Any warrants not vested for one milestone period are added on a cumulative basis to the following increment for potential vesting at the next milestone. In the event that an officer is terminated without cause: (i) he shall review a cash settlement of \$75,000, and (ii) 50% of all unvested warrants issued under his employment agreement, as amended, shall vest immediately. Except as set forth herein, the respective employment agreements remain unchanged and in full force and effect.

The Company entered into employment agreements as of September 1, 2011, as amended on March 15, 2012, with D. Jason Davis, as Chief Executive Officer of Xnergy, Inc. and Joseph Patalano, as Chief Operating Officer of Xnergy, Inc. The agreements terminate on August 31, 2016, unless terminated earlier and are automatically renewed for one-year periods unless notice of termination is given by either party at least 90 days prior to expiration of the Initial Term and/or any renewal period. Mr. Davis's base salary is \$300,000 per annum and Mr. Patalano's base salary is \$140,000. Both are eligible to receive a bonus for the three fiscal years ending December 31, 2013, based on Xnergy's performance on a stand-alone basis. Pursuant to the March 2012 Amendment, the cash bonus for 2012 was replaced by a warrant bonus. Messrs. Davis and Patalano received 716,400 and 183,600 warrants, respectively, exercisable at \$1.16 per share, the merger closing price for ten (10) days prior to execution of the Amendment. The warrants expire on March 15, 2017, if not previously exercised. The warrants shall vest as follows:

a.

150,000 and 100,000 warrants for Davis and Patalano, respectively, when the Company signs an agreement or agreements that generate at least \$30,000,000 in revenues, or when the executive pays the \$1.16 to exercise said warrants, whichever occurs first.

b.

283,200 and 41,800 warrants for Davis and Patalano, respectively, shall vest when the Company recognizes \$50,0000 in accumulated revenues according to GAAP standards, commencing January 1, 2012.

c.

283,200 and 41,800 warrants for Davis and Patalano, respectively, shall vest when the Company recognizes \$70,0000 in accumulated revenues according to GAAP standards, commencing January 1, 2012.

The bonuses for 2013 shall be paid based on 80% of the reasonable forecasted profits of Xnergy before negotiations commenced with the Company. Messrs. Davis and Patalano shall receive 33% in the aggregate of the recurring revenue from payments completed during the initial term of their employment contracts, provided: (i) Xnergy's net income for the fiscal year exceeds the profit threshold; (ii) the respective employee is still employed by Xnergy; and (iii) this provision shall expire on June 30, 2016, unless extended in writing. If the Agreement is terminated for Cause (as defined) or the employee leaves without Good Reason (as defined) he shall only receive any accrued compensation



but not be entitled to any bonus beyond the date of termination. If the employee's contract is terminated other than for Cause or by the Employee for Good Reason, but not for death, disability or non-resident, the employee shall receive the compensation stated above for the balance of the Term and any bonus generated from recurring profits from payments originated by the Employee until revenue under such agreements cease.

## Equity Compensation Plan Information

### *Equity Incentive Plan*

On October 30, 2009, our board of directors and stockholders adopted the 2009 Equity Incentive Plan. The purpose of the 2009 Equity Incentive Plan is to provide an incentive to attract and retain directors, officers, consultants, advisors and employees whose services are considered valuable, to encourage a sense of proprietorship, and to stimulate an active interest of these persons in our development and financial success. Under the 2009 Equity Incentive Plan, we are authorized to issue up to 4,542,000 shares of Common Stock, including incentive stock options intended to qualify under Section 422 of the Internal Revenue Code of 1986, as amended, non-qualified stock options, stock appreciation rights, performance shares, restricted stock and long term incentive awards. The 2009 Equity Incentive Plan will be administered by our board of directors until authority has been delegated to a committee of the board of directors. On the closing date of the 2009 Merger, certain of our executive officers, directors and other persons were granted options to purchase common stock exercisable at prices ranging from \$0.90 to \$1.00 per share. All but the options granted to Dan Lohrmeyer (200,000 shares exercisable at \$0.90 per share which were subsequently exercised) and Brittany Jorgenson (20,000 shares exercisable at \$0.90 per share until October 30, 2019) were cancelled pursuant to the terms of the August 2010 Stock Purchase Agreement (see Certain Relationships and Related Transactions - Discontinued Operations ). An aggregate of 3,002,000 options exercisable at \$.90 to \$1.00 per share were cancelled in connection the August 2010 Stock Purchase Agreement by the following persons: Colleen Stiles (770,000 shares), Michael Hodges (600,000 shares), Larry Campbell (600,000 shares), Paul Vette (500,000 shares), Carol Shobrook (400,000 shares), Amanda Sorenson (100,000 shares), Michael Whaley (30,000 shares) and Tim Holt (2,000 shares). Options to purchase 38,500 shares of Common Stock were granted to Keven Kraus in October 2009 exercisable at \$0.99 per share until March 31, 2011 which have been exercised and 10,000 shares of Common Stock to Keith Spondike in October 2010 exercisable at \$1.00 per share which are the sole options from the above described paragraph remaining outstanding as of the date of this Report.

On December 14, 2010, the Company granted Dale Gustavson and Robert Leebern each options to purchase 15,000 shares of Common Stock, exercisable for ten (10) years at \$1.70 per share upon their joining the EEAB.

Effective January 1, 2011, upon the Castrovilla Acquisition, 23 employees of Castrovilla were granted an aggregate of 54,459 incentive stock options with one and three year vesting schedules exercisable for ten (10) years at \$1.68 per share. John Pink, President of Castrovilla, was granted a performance based incentive stock option to purchase 30,000 shares of Common Stock, exercisable for ten years at \$1.68 per share. As long as he is employed by Castrovilla, Mr. Pink's option remains exercisable in three equal installments of 10,000 shares each on December 31, 2011, 2012 and 2013, only if Castrovilla operations as currently situated achieve EBITDA levels of \$870,000, \$1,044,000 and \$1,252,000, respectively. Mr. Pink was also granted an option to purchase 13,332 shares of Common Stock exercisable for ten years at \$1.68 per share exercisable in three equal installments of 4,444 shares on December 31, 2011, 2012 and 2013, respectively.

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On October 4, 2011, the Company granted John Pink options to purchase 450,000 shares of Common Stock exercisable at \$1.72 per share for ten (10) years with one-third vested upon grant, one-third upon billing of 500 petroleum sites and one-third vested upon billing of an additional 1,000 petroleum sites.

On January 1, 2012, the Company granted Philip Kranenburg options to purchase 1,000,000 shares of Common Stock as described above. As a result of the termination of Mr. Kranenburg's employment, he is currently able to exercise an aggregate of 52,720 options and the remaining 947,280 options were returned to Treasury.

As a result of the foregoing, there were options to purchase an aggregate of 587,791 shares of Common Stock issued and outstanding as of December 31, 2011 and 640,511 as of the date of this prospectus.

**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.**

The following table sets forth certain information as of October 19, 2012, regarding the beneficial ownership of our common stock, by (i) each person or entity who, to our knowledge, owns more than 5% of our common stock; (ii) our executive officers named in the Summary Compensation Table above; (iii) each director; and, (iv) all of our executive officers and directors as a group. Unless otherwise indicated in the footnotes to the following table, each person named in the table has sole voting and investment power and that person's address is c/o Blue Earth, Inc., 2298 Horizon Ridge Parkway, Suite 205, Henderson, NV 89052 Shares of common stock subject to options, warrants, or other rights currently exercisable or exercisable within 60 days of the date of this prospectus, are deemed to be beneficially owned and outstanding for computing the share ownership and percentage of the stockholder holding the options, warrants or other rights, but are not deemed outstanding for computing the percentage of any other stockholder.

<b>Name of Beneficial Owner</b>	<b>Number of Shares <u>Beneficially Owned</u></b>	<b>Percentage <u>Beneficially Owned(1)</u></b>
<b>5% Owners :</b>		
John Liviakis		
Liviakis Financial Communications		
655 Redwood Hwy, Suite 395		
Mill Valley, CA 94941		
	1,841,342 (2)	9.3%
D. Jason Davis		
2721 Loker Avenue West		
Carlsbad, CA 92010		
	3,519,662(3)	17.5 %
David Lies		
1701 E. Lake Avenue, Suite 260		
Glenview, IL 60025		
	4,089,528(4)	17.7%
<b>Executive Officers and Directors :</b>		
Johnny R. Thomas		
	2,000,000 (5)	9.3 %
John C. Francis		
	2,000,000 (5)	9.3 %
Laird Q. Cagan		
	1,549,125 (6)	7.7 %
All executive officers and directors		
	5,549,125 (4)(6)	23.0%

as a group (three persons)

(1)

Based on 19,451,836 shares of our common stock outstanding on October 19, 2012. Does not include shares of our common stock issuable upon exercise of outstanding options, warrants and warrants issuable upon grant and full exercise of Class A Warrants or conversion of Preferred Stock.

(2)

As reported on Schedule 13G dated June 1, 2012 filed by John Liviakis. Includes 201,580 shares of common stock issuable upon conversion of Series B Preferred Stock and 100,790 shares issuable upon exercise of Class A Warrants issued on August 2, 2012 upon conversion of \$201,580 of outstanding indebtedness. Does not include 234,000 shares issued to certain designees of Liviakis Financial Communications, Inc. ( LFC ), a company hired by us to provide investor relations and public relations services through November 12, 2012, however, includes 41,440 shares held by LFC which shares Liviakis beneficially owns.

(3)

Consists of 2,873,292 shares of Common Stock held by a trust of which Mr. Davis is the executor and beneficiary, 1,000 shares held directly by Mr. Davis and 646,400 shares of Common Stock issuable upon exercise of currently exercisable warrants held by Mr. Davis. Includes 398,000 shares deposited by Mr. Davis and 102,000 shares deposited by Joseph Patalano, an officer of Xnergy, with the Company pursuant to an Escrow Agreement dated as of September 7, 2011, none of which shares are saleable prior to September 7, 2013 under the terms of a lock-up agreement. The Company shall be entitled to reimbursement from the Escrowed Shares in the event CJ3, as owner of the leased building, defaults on mortgage payments that adversely affect the Company financially through its lease. See Business -- Legal Proceedings.

(4)

Includes 100,000 shares issued in our 2009 Private Placement and 79,368 shares issued for consulting services to Remanco Inc. of which Mr. Lies is a control person; 50,000 shares issuable upon exercise of Pipe Warrants issued in the 2009 Private Placement; 50,000 shares issuable upon exercise of Class A Warrants issued to all shareholders of record on December 31, 2010; 1,260,720 shares issuable upon exercise of Class A Warrants issued in our 2011 Series A Preferred Stock Offering and 2012 Series B Preferred Stock Offering; 1,610,000 shares of Common Stock issuable upon issuance of Series A Convertible Preferred Stock; and 911,440 shares of Common Stock issuable upon conversion of Series B Convertible Preferred Stock, but does not include accrued preferred stock dividends.

(5)

Shares issuable upon exercise of management warrants assigned by Johnny R. Thomas and John C. Francis to affiliates for estate planning purpose and for which warrants and underlying shares Messrs. Thomas and Francis disclaim beneficial ownership (except for 1,160,000 underlying shares owned by John Francis and 750,000 underlying shares owned by Johnny R. Thomas), although included in the above table since the warrants were issued pursuant to their respective employment agreements, as amended. Under Dr. Thomas's employment agreement 2,000 shares per month are being exercised and issued in lieu of salary payments for such exercises. Of three Warrants the initial 1,000,000 Warrants issued to each of Dr. Thomas and Mr. Francis are exercisable for ten (10) years at \$1.00 per share. The first 100,000 warrants vested upon grant, the next 150,000 warrants vested on October 31, 2010, the next 250,000 warrants vested on September 1, 2011, the next 500,000 warrants vested on September 1, 2012, while the remaining 500,000 warrants vest on September 1, 2013. The vesting schedule accelerates to full vesting upon the Company achieving aggregate revenue of \$12,500,000 for two consecutive quarters and the Company records a pre-tax net profit for such two quarters. The second warrants issued in March 2011, for each to purchase 1,000,000 shares are exercisable at \$1.25 per share and will vest if and when the Company achieves certain performance milestones and/or when exercised. All of these warrants also vest when the holders exercise the warrants and purchase Common Stock and are therefore currently exercisable. See Executive Compensation above.

(6)

Includes 600,000 shares of Common Stock owned by Cagan Capital LLC and 100,000 shares owned by Mr. Cagan's minor children; 50,000 shares issuable upon exercise of Warrants issued to Mr. Cagan's minor children; 250,000

shares issuable upon exercise of currently exercisable warrants issued under this employment contract; 11,625 Warrants issued to Mr. Cagan or an affiliate, and 437,500 shares issuable upon exercise of consultant warrants which exclude 62,500 which are vested in November, 2012.

**Securities Authorized for Issuance Under Equity Compensation Plans**

As of December 31, 2011, securities issued and securities available for future issuance under our Equity Incentive Plan were as follows:

**Equity Compensation Plan Information**

	Number of securities to be Issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders (1)	298,500	\$1.00	4,153,500
Equity compensation plans not approved by security holders(2)	<u>2,000,000</u>	<u>\$1.00</u>	<u>-0-</u>
Total	2,298,500		4,153,500

(1)

See Executive Compensation - Equity Incentive Plan for a discussion of the Company's 2009 Equity Incentive Plan.

(2)

See Executive Compensation - Outstanding Equity Amounts at Fiscal Year End note (1) for a discussion of Management Warrants issued to Johnny R. Thomas and John C. Francis designated nominees.

From September 29, 2011 through December 31, 2011, the Company completed the sale of \$2,000,000 of Units of unregistered securities. Each Unit consists of: (i) one share of Series A Convertible Preferred Stock ( Preferred Stock ), offered at \$10.00 per share convertible into ten shares of Common Stock at \$1.00 per share, and (ii) warrants ( Warrants ) to purchase one share of Common Stock for each two shares of Common Stock issuable upon conversion of the Preferred Stock.

The terms and conditions of the Preferred Stock are set forth in the Certificate of Designation of the Rights, Preferences, Privileges and Restrictions of Series A Convertible Preferred Stock as set forth in the Certificate, the Preferred Stock:



pays an eight percent (8%) dividend when paid in cash or a twelve percent (12%) dividend when paid in common stock at the Company's election;

shall be convertible at the Company's election at \$1.00 per share upon the earlier of (i) four (4) years from issuance or (ii) when the Common Stock closing price trades at \$2.25 per share for sixty (60) consecutive calendar days;

In the event of a conversion prior to the payment of the first year of dividends, the Company shall nevertheless pay the Holder such dividends equal to what the Holder was to receive for the first full year from the date of issuance;

liquidation preference of \$10.00 per share plus additional unpaid dividends;

votes on an as converted basis with Common Stock as one class; and

will register underlying common stock on next available registration statement;

The terms of the Warrants are set forth in the form of warrant, filed as an exhibit with the SEC. As set forth in the warrant, the Warrant:

**A Warrant:** Each A warrant entitles the holder to receive one common share and a B warrant when the A warrant is exercised. The exercise price is \$3.00/share and the expiration date is December 31, 2013.

**B Warrant:** Each B warrant entitles the holder to receive one common share and a C Warrant when the B warrant is exercised. The exercise price is \$6.00/share and the expiration date three (3) years from the issuance date.

**C Warrant:** Each C warrant entitles the owner to receive one common share when the C warrant is exercised. The exercise price is \$12.00/share and the expiration date is three (3) years from the issuance date.

Accordingly, the Company issued 297,850 shares of Series A Preferred Stock, with a face value of \$10.00 per share and Warrants to purchase 1,489,250 shares of Common Stock at \$3.00 per share as of the date of this Prospectus.

The Company issued 283,052 shares of Series B Preferred Stock, with a face value of \$10.00 per share and warrants to purchase 1,415,260 shares of Common Stock at \$3.00 per share as of the date of this Prospectus.

## **CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

Except as set forth below, during the past three years, there have been no transactions, whether directly or indirectly, between the Company and any of its officers, directors or their family members.

### **Employment Agreements/Warrants**

The Company has entered into substantively similar employment agreements effective September 1, 2010, as amended on March 1, 2011, with Dr. Johnny R. Thomas as Chief Executive Officer and President and John Francis as Vice President of Corporate Development and Investor Relations. Pursuant to their contracts, Messrs. Thomas and Francis were each awarded warrants to purchase an aggregate of 2,000,000 shares of Common Stock, as set forth above under Executive Compensation - Employment Agreements.

### **Consulting Agreement/Warrants**

On February 24, 2011, the Company entered into a Consulting Agreement with Cagan McAfee Capital Partners, an entity controlled by Laird Cagan, Chairman of the Company's Board of Directors. Mr. Cagan received warrants to purchase 500,000 shares of Common Stock at \$1.24 per share, for a ten-year period, as amended.

### **Discontinued Operations**

On August 27, 2010, the Company entered into a Stock Purchase Agreement (the SPA). Pursuant to the SPA, the Buyers who signed the SPA, including Michael Hodges, the former Chairman and Interim Chief Executive Officer of the Company, purchased from the Company on or before August 31, 2010, all of the issued and outstanding common stock of Genesis Fluid Solutions, Ltd. (GFS), its wholly-owned subsidiary. The Purchase Price for GFS was (a) an aggregate of 6,302,630 shares of Common Stock of the Company to be cancelled including, an aggregate of 1,300,000 shares of Common Stock of the Company held under an Escrow Agreement dated October 30, 2009 among the Company, GFS, Michael Hodges, and Sichenzia Ross Friedman Ference LLP, as escrow agent; (b) an aggregate of approximately 3,011,000 options and warrants of the Company to be cancelled; and (c) GFS's payment to the Company of a six (6%) percent royalty beginning August 8, 2010, on all gross revenues derived from (i) dewatering corporations (exclusive of payments to subcontractors) and (ii) the sale, lease or licensing arrangements of the Rapid Dewatering System and/or any of the dewatering boxes of GFS and its affiliates until the Company receives \$4,000,000 and a royalty of three (3%) percent of gross revenues thereafter not to exceed a cumulative royalty of \$15,000,000 (the Royalty).

The closing of the Stock Purchase Agreement occurred on August 31, 2010, at which time the Company: (i) received of all of the certificates representing the Company Shares, Options, Warrants, and Escrowed Shares (each, as defined in the Stock Purchase Agreement) issued to the Buyers, (ii) entered into an agreement regarding the assignment of the Royalty by GFS and its successors and assigns to the Company, and all other closing conditions were satisfied. Following the closing, the GFS ceased to be a wholly-owned subsidiary of the Company and the Buyers, collectively, became the owners of one hundred percent (100%) of the issued and outstanding capital stock of GFS. Accordingly, the Company's financial statements have been restated to reflect the assets, liabilities and operations of GFS as discontinued.

### **Intellectual Property Assignment**

On August 16, 2009, Michael Hodges and Larry Campbell executed an assignment agreement, pursuant to which they assigned to Genesis Fluid Solutions ( GFS ) the Company's former wholly-owned subsidiary all of the their rights, title and interest in an invention entitled Apparatus and Method for De-Watering of Slurries, as described and/or claimed in US Application No. 11/676,699 and PCT Application No. PCT/GB2007/000544, and all rights of priority in the invention as described and/or claimed in any applications for patents based on the invention.

On September 30, 2009, Michael Hodges and Larry Campbell executed another assignment agreement, pursuant to which they assigned to GFS all of the their rights, title and interest in all patents, whether in the United States or internationally, that they may have in their respective names, that they may have applied for, or that they will apply for, directly or indirectly relating to the business currently conducted and/or to be conducted by the Company. Pursuant to the Stock Purchase Agreement effective August 8, 2010 (see Discontinued Operations above) the Company sold all of the stock of GFS to Michael Hodges and other stockholders in exchange for a Royalty the return of shares of the Company's stock as described above.

### **Release of Cherry Tankers Debt**

Pursuant to the terms of a release dated October 30, 2009, a third party lender forgave loans made to us in the aggregate amount of \$42,727 and released us from any claims he may have against us. These loans were made to cover certain expenses incurred by us before the Merger.

### **Bridge Notes**

Mary Losty, a former director of the Company, purchased \$100,000 in principal amount of 10% secured promissory notes as part of our bridge note financing conducted from May 2009 through October 13, 2009. Pursuant to the terms of the bridge note financing, Ms. Losty converted the aggregate principal amount of her note into units sold in the Private Placement which closed immediately following the Merger at a rate of 1.3 shares of common stock and warrants to purchase 0.5 shares of common stock for each \$1.00 of bridge note converted.

### **SELLING STOCKHOLDERS**

Up to 8,832,126 warrants, and 25,523,291 shares of common stock are being offered by this prospectus, all of which are being registered for sale for the accounts of the selling security holders and include the following:

.

5,927,616 shares of common stock issuable upon exercise of Class A Warrants registered hereby issued to all stockholders of record on December 31, 2010.

.

1,489,250 shares of Common Stock issuable upon exercise of Class A Warrants issued in the Company's 2011 Series A Preferred Stock Offering.

.

1,415,260 shares of Common Stock issuable upon exercise of Class A Warrants issued in the Company's 2012 Series B Preferred Stock Offering.

.

3,285,000 shares of common stock issued upon the exercise of PIPE warrants issued to investors in the 2009 Private Placement.

.

57,500 shares of common stock issued upon the exercise of warrants issued to the placement agents in connection with the 2009 Private Placement.

.

700,000 shares of common stock issuable upon exercise of warrants issued to two consultants under consulting agreements.

.

1,160,000 shares of common stock issuable upon exercise of warrants issued to our investor relations firm and one of its employees.

.

2,978,500 shares of our common stock issuable upon conversion of Series A Convertible Preferred Stock issued in our 2011 Series A Preferred Stock Offering.

.

2,830,520 shares of our common stock issuable upon conversion of Series B Convertible Preferred Stock issued in our 2012 Series B Preferred Stock Offering.

.

50,000 shares of our common stock granted to each of two former consultants; 15,000, 79,368, 50,000 and 90,000 shares of our Common Stock granted to four consultants and their designees; 14,535 shares issued to our attorneys, and 100,000 shares issued to our Chairman of the Board.

108,000 shares of our Common Stock issuable upon exercise of warrants issued to the placement agents in connection with our 2011 and 2012 Preferred Stock Offering.

509,533 shares of our Common Stock issued to a former owner of our Xnergy, Inc, subsidiary and 38,209 shares of our Common Stock issued to a former officer of the Company.

75,000 shares of our Common Stock issuable upon exercise of warrants issued in our May-August 2012 Bridge Financing.

4,000,000 shares of our Common Stock issuable upon exercise of warrants issued to our officers and their assignees for estate planning purposes.

Each of the transactions by which the selling stockholders acquired their securities from us was exempt under the registration provisions of the Securities Act. We received gross proceeds of \$6,150,000 from the closing of the 2009 Private Placement in which the 3,335,000 Private Placement PIPE Warrants were issued. We received gross proceeds of \$2,978,000 from the closings of the 2011 Series A Offering.

The shares of common stock referred to above are being registered to permit public sales of the shares, and the selling stockholders may offer the shares for resale from time to time pursuant to this prospectus. The selling stockholders may also sell, transfer or otherwise dispose of all or a portion of their shares in transactions exempt from the registration requirements of the Securities Act or pursuant to another effective registration statement covering those shares. We may from time to time include additional selling stockholders in supplements or amendments to this prospectus.

The table below sets forth certain information regarding the selling stockholders and the shares of our common stock offered by them in this prospectus. None of the selling stockholders have had a material relationship with us within the past three years other than as described in the footnotes to the table below or as a result of their acquisition of our shares or other securities. To our knowledge, subject to community property laws where applicable, each person named in the table has sole voting and investment power with respect to the shares of common stock set forth opposite such person's name. Beneficial ownership is determined in accordance with the rules of the SEC.





Each selling stockholder's percentage of ownership of our outstanding shares in the table below is based upon 19,391,724 shares of common stock outstanding as of September 24, 2012. Except where otherwise noted, the number of shares offered hereby consists of one share of common stock issuable upon exercise of Investor Warrants and one share of common stock issuable upon exercise of Class A Warrants. The number of shares beneficially owned after the Offering assumes that all shares offered hereby are sold.

Ownership	After Offering (1)					
	Before Offering			After Offering (1)		
Number of Shares of	2009 PIPE			Number of Shares of	Percentage of	Common Stock
	Common Stock	Class A Warrants	Warrant Shares			
Beneficially Owned	Offered (2)	Offered (3)	Other Shares Offered	Beneficially Owned	Beneficially Owned	
<b>Selling Stockholder</b>	<b>Owned</b>	<b>(2)</b>	<b>(3)</b>	<b>Offered</b>	<b>Owned</b>	<b>Owned</b>
Abbonizio, Perry S.	150,000	50,000	-0-	-0-	100,000	*
Abrams, Joe	50,000	-0-	-0-	50,000	-0-	-0-
Anderson, Steven J and Ayerle, Robert A.	50,000	12,500	12,500	-0-	25,000	*
Azar, Ramin J. (12) (28)	200,000	50,000	50,000	-0-	100,000	*
Barragan, James C. Jr.	21,250	-0-	-0-	21,250(5)(60)	-0-	-0-
Baroody (IRA), Michael E. (8)	100,000	25,000	25,000	-0-	50,000	*
Baroody, Michael E. and Mary P.	50,000	12,500	12,500	-0-	25,000	*
Bell, Judy	30,000	7,500	7,500	-0-	15,000	*
Block, Judy R.	15,000	5,000	-0-	-0-	10,000	*
Brown Trust dtd 6/30/2000, Michael C. (9)	15,000	5,000	-0-	-0-	10,000	*
Bradvice George M, TTEE	300,000	75,000	75,000	-0-	150,000	*
Bradvice Living Trust (10)	25,000	-0-	25,000	-0-	-0-	-0-
Brusenhan, J. Richard	750	250	-0-	-0-	500	*
Burnside, Ronald	9,000	3,000	-0-	-0-	6,000	*
Burzotta, James	25,000	-0-	25,000	-0-	-0-	-0-
Bush, William J.	15,000	5,000	-0-	-0-	10,000	*
Cagan Capital LLC. (11)	1,000,000	250,000	250,000	-0-	500,000	2.6%
Cagan, Kiana	100,000	25,000	25,000	-0-	50,000	*
Cagan, Kyla	100,000	25,000	25,000	-0-	50,000	*
Cagan, Laird (12) (28)	1,549,125(4)	-0-	-0-	611,625(6)	937,500	4.7%
Clements, Gordon	50,000	-0-	50,000	-0-	-0-	-0-

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Colorado Financial Service Corp. (11)(12)(13) Colorado Springs	13,000	-0-	-0-	13,000(42)	-0-	-0-
Orthopedic Group (14)	50,000	12,500	12,500	-0-	25,000	*
Conlon, Melody	9,000	3,000	-0-	-0-	6,000	*
Coy Ten Com, William and Sherald	30,000	10,000	-0-	-0-	20,000	*
Crane, Jennifer	26,250	8,750	-0-	-0-	17,500	*
Daugherty, William S.	50,000	12,500	12,500	-0-	25,000	*
Davidson, Keith W.	55,000	15,000	10,000	-0-	30,000	*

	After Offering (1)					
	Ownership					
	Before Offering					
	Number of			Number of		
	Shares of	2009 PIPE		Shares of	Percentage of	
	Common	Class A	Warrant	Common	Common	
	Stock		Shares	Stock	Stock	
	Beneficially	Warrants	Offered	Other	Beneficially	Beneficially
	Owned	Offered (2)	(3)	Shares	Owned	Owned
Selling Stockholder				Offered		
Davidson, William E.	20,000	5,000	5,000	-0-	10,000	*
Domino, Carl J.	200,000	50,000	50,000	-0-	100,000	*
Ellis, Bradley (12) (28)	3,400	-0-	-0-	3,400(5)	-0-	-0-
Evanson, Dave (12) (28)	2,000	-0-	-0-	2,000(5)	-0-	-0-
Fast CEDE & CO.	3,715,035	1,238,345	-0-	-0-	2,476,690	-0-
Fellin, Richard	15,000	5,000	-0-	-0-	10,000	*
Ferdinand, Alice	15,000	5,000	-0-	-0-	10,000	*
First Clearing LLC	270,000	90,000	-0-	-0-	180,000	-0-
Fishman, Seth Ian	12,500	-0-	12,500	-0-	-0-	-0-
Flynn, Daniel P.	60,000	20,000	-0-	-0-	40,000	*
Frei, Robert and Amy Frei	100,000	25,000	25,000	-0-	50,000	*
Freshman, John D	52,500	17,500	-0-	-0-	35,000	*
Fourth Street Fund LP (15)	12,500	-0-	12,500	-0-	-0-	-0-
Furman, Scott (12) (28)	150	-0-	-0-	150(5)	-0-	-0-
Gardner, Dean	12,500	-0-	12,500	-0-	-0-	-0-
Gar Wood Securities (12)(13)(16)	1,682	-0-	-0-	1,682(5)	-0-	-0-
Gates, Bruce A.	50,000	12,500	12,500	-0-	25,000	*
Geraghty, Kevin	25,000	-0-	25,000	-0-	-0-	-0-
Glenn Dahl, Thomas	50,000	12,500	12,500	-0-	25,000	*
Glengar International Invs LTD (17)	1,100,000	275,000	275,000	-0-	550,000	2.8%
Gregozeski, William	5,041	-0-	-0-	5,041(5)	-0-	-0-
Haubert, Michael E.	3,000	1,000	-0-	-0-	2,000	*
Hecht, Timothy P.	50,000	12,500	12,500	-0-	25,000	*
Hecht, William H.	150,000	37,500	37,500	-0-	75,000	*
Henderson, Donna J.	30,000	10,000	-0-	-0-	20,000	*
Henderson, Maria E.	25,000	6,250	6,250	-0-	12,500	*
Higgins, Margaret Stone	15,000	5,000	-0-	-0-	10,000	*
Hughes, Timothy, P.	50,000	-0-	50,000	-0-	-0-	-0-
Jason T. Evans and Dannette E. Evans	20,000	5,000	5,000	-0-	10,000	*

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Jesmer, J. Robert	20,000	5,000	5,000	-0-	10,000	*
Jesup and Lamont (12)(13)	350	-0-	-0-	350(5)	-0-	-0-

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Ownership	After Offering (1)					
	Before Offering			After Offering (1)		
Number of	2009		Number of		Percentage of	
Shares of	PIPE		Shares of	Common Stock		Common Stock
Common Stock	Class A	Warrant	Common Stock	Common Stock	Common Stock	Common Stock
Beneficially	Warrants	Shares	Other Shares	Beneficially	Beneficially	Beneficially
Owned	Offered (2)	Offered (3)	Offered	Owned	Owned	Owned
<b>Selling Stockholder</b>						
Johannesson, Mikael	50,000	12,500	12,500	-0-	25,000	*
John Liviakis Custodian FBO						
Audrey Liviakis (18)	37,500	12,500	-0-	-0-	25,000	*
John Liviakis Custodian FBO						
Caroline Liviakis (18)	37,500	12,500	-0-	-0-	25,000	*
Jorgenson, Brittany	100,000	-0-	-0-	-0-	-0-	-0-
JSL Kids Partners (19)	200,000	50,000	50,000	-0-	100,000	*
Juth, Troy Lee	10,500	3,500	-0-	-0-	7,000	*
Kesner, Harvey	75,000	25,000	-0-	-0-	50,000	*
Koons, III, Frank R.	100,000	25,000	25,000	-0-	50,000	*
Kowlowitz, Edward	600,000	150,000	150,000	-0-	300,000	1.5%
Kreuzer, William J.	15,000	5,000	-0-	-0-	10,000	*
Kuhlman Trust dtd 7/12/94, Linda U. (20)	200,000	50,000	50,000	-0-	100,000	*
Kyees, John E.	50,000	12,500	12,500	-0-	25,000	*
Lechner, Barry Thomas	12,500	-0-	12,500	-0-	-0-	-0-
Lechner, Daryl Marcus	50,000	12,500	12,500	-0-	25,000	*
Legend Merchant (12)(13)(21)	8,000	-0-	-0-	8,000(5)	-0-	-0-
Lemak, John (12) (29)	14,000	-0-	-0-	14,000(5)	-0-	-0-
Lewis, John R.	750	250	-0-	-0-	500	-0-
Lewandowski, James A.	12,500	-0-	12,500	-0-	-0-	-0-
Linden Growth Partners Master						
Fund LP (22)	800,000	200,000	200,000	-0-	400,000	2.0%
Liviakis Financial						
Communications, Inc. (23)	1,100,000	-0-	-0-	1,100,000(7)	-0-	-0-
Liviakis, John	2,942,152	858,181(61)	25,000	201,580(48)	757,391	3.9%
Liviakis, Victoria	57,000	19,000	-0-	-0-	38,000	*
Lofgren, Steffan	25,000	-0-	25,000	-0-	-0-	-0-
London Family Trust (24)	690,000	180,000	150,000	-0-	360,000	1.8%
Loshin, Harriet	12,500	-0-	12,500	-0-	-0-	-0-

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Loshin, Janice M.	50,000	12,500	12,500	-0-	25,000	*
Loshin, Ronald S	124,500	41,500	-0-	-0-	83,000	*
Loshin, Susan E.	10,000	2,500	2,500	-0-	5,000	*
Losty, Margaret M. (25)	20,000	-0-	20,000	-0-	-0-	-0-

Ownership	After Offering (1)						
	Before Offering			Number of			
	Number of		2009 PIPE		Shares of	Percentage of	
	Shares of	Class A	Warrant	Other	Common	Common	
Common Stock	Warrants	Shares	Shares	Stock	Stock		
Beneficially	Offered (2)	Offered (3)	Offered	Beneficially	Beneficially		
Selling Stockholder	Owned	Offered (2)	Offered (3)	Offered	Owned	Owned	
Losty (Sep IRA), Margaret M. Losty Lawrence J., Losty	60,000	20,000	-0-	-0-	40,000	*	
Esther A. and Losty JTWROS (26)	60,000	15,000	15,000	-0-	30,000	*	
Losty, Andrew S. (27)	20,000	5,000	5,000	-0-	10,000	*	
Losty, Edward J. Losty and Gretchen N. Losty, JTRWROS (26)	100,000	25,000	25,000	-0-	50,000	*	
Losty, Mary M.	1,595,000	515,000	50,000	-0-	1,030,000	5.2%	
Mattoon Sr., Daniel J. McCurry JTWROS, Sherry L.	20,000	5,000	5,000	-0-	10,000	*	
And W. Larry	22,500	7,500	-0-	-0-	15,000	*	
McKernan, Rachel	50,000	12,500	12,500	-0-	25,000	*	
McSwain, Patrick D.	50,000	12,500	12,500	-0-	25,000	*	
Mele, Mario V.	50,000	12,500	12,500	-0-	25,000	*	
Moskowitz, Mark L. (12)(28)	210,200	50,000	50,000	4,250(5)	100,000	*	
Mottale, Micha	200,000	50,000	50,000	-0-	100,000	*	
Murphy, Daniel (12)(28)	825	-0-	-0-	500(5)	-0-	-0-	
Murphy, Michael B. (12)(28)	52,500	17,500	-0-	-0-	35,000	*	
Muschler III, Joseph N.	15,000	5,000	-0-	-0-	10,000	-0-	
Nelson, Terry and Marci NTC & Co 26-1356253	20,000	5,000	5,000	-0-	10,000	*	
FBO Daniel Rivers (29)	12,500	-0-	12,500	-0-	-0-	-0-	
Oman International Hldgs (17)	100,000	25,000	25,000	-0-	50,000	*	
Paasch, Christopher	50,000	12,500	12,500	-0-	25,000	*	
Palmer, M.D., David O.	100,000	25,000	25,000	-0-	50,000	*	
Pelosi Jr., Paul Francis	10,000	-0-	10,000	-0-	-0-	-0-	
Pasden, Andrew J. Jr. and Linda L.	15,000	5,000	-0-	-0-	10,000	*	
Pershing LLC.	30,000	10,000	-0-	-0-	20,000	-0-	

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Petersen, Vendor	55,215	18,405	-0-	-0-	36,810	*
Petterson, Jan	50,000	12,500	12,500	-0-	25,000	*
Porat, Gil	3,300	1,100	-0-	-0-	2,200	*
Prag, Robert B.	122,500	32,500	25,000	-0-	65,000	*
Rauch, Donald	245,000	65,000	50,000	-0-	130,000	*
Rawson, Steven John	140,985	46,995	-0-	-0-	93,990	*
Rhoads, W. Thomas	12,500	-0-	12,500	-0-	-0-	-0-



Ownership	After Offering (1)					
	Before Offering				Number of	
Number of	2009 PIPE			Number of	Percentage of	
Shares of	Class A	Warrant	Other	Shares of	Common	
Common	Warrants	Shares	Shares	Common	Common	
Stock	Offered	Offered	Offered	Stock	Stock	
Beneficially	Offered	Offered	Offered	Beneficially	Beneficially	
Selling Stockholder	Owned	(2)	(3)	Owned	Owned	
Richardson, Robert H.	20,000	5,000	5,000	-0-	10,000	*
Robinson, Scott	50,000	12,500	12,500	-0-	25,000	*
Rotter, Bradley	200,000	50,000	50,000	-0-	100,000	*
Ruyle, Karen	12,585	4,195	-0-	-0-	8,390	*
Ryan, Vicki	40,785	13,595	-0-	-0-	27,190	*
Sandell, J. Rune	12,500	-0-	12,500	-0-	-0-	-0-
Sandor Capital						
Master Fund, LP (30)	1,000,000	250,000	250,000	-0-	500,000	2.5%
Schadewitz, Constance	5,041	-0-	-0-	5,041(5)	-0-	-0-
Schmitt, Richard	15,000	5,000	-0-	-0-	10,000	*
Selagamsetty, Munni R. and	8,820	2,940	-0-	-0-	5,880	*
Sherman Capital Group (31)	50,000	-0-	50,000	-0-	-0-	-0-
Sherrock, Mary Jo	15,000	5,000	-0-	-0-	10,000	*
Sinnott, Patricia M.B.	15,000	5,000	-0-	-0-	10,000	*
Sparango, Benedict &	100,000	25,000	25,000	-0-	50,000	*
Spears, Jackson, Jr.	5,041	-0-	-0-	5,041(5)	-0-	-0-
Speer, John F	375,000	125,000	-0-	-0-	250,000	1.3%
Speer, Robert G.	60,000	20,000	-0-	-0-	40,000	*
Stavish, Susan D.	15,000	5,000	-0-	-0-	10,000	*
Sublett, Tarn M.	24,500	4,000	12,500	-0-	8,000	*
Sustainable Tech Fund (32)	50,000	12,500	12,500	-0-	25,000	*
Tallo, Neil A.	72,545	20,015	12,500	-0-	40,030	*
Tallo, Neil Arthur	37,500	12,500	-0-	-0-	25,000	*
Tallo, Patricia A.	27,500	5,000	12,500	-0-	10,000	*
The Barbara Kolar Family Trust-						
1988 (33)	6,250	-0-	6,250	-0-	-0-	*
The James Molesky Family						
Trust (34)	18,750	6,250	-0-	-0-	12,500	*
The Prag Children's Trust FBO	150,000	-0-	150,000	-0-	-0-	-0-
Robert						

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B. Prag Jr.

Charles N. Travers TTEE WDT

DTD Oct.

24, 1988 (35)	25,000	-0-	25,000	-0-	-0-	*
Trefaller, Joseph J. and Margaret C.	87,500	25,000	12,500	-0-	50,000	*
UBS Financial Svcs. FBO Michael						
T. Collins (IRA) (36)	100,000	-0-	100,000	-0-	-0-	-0-
Vogel, Frederick W.	325,000	100,000	25,000	50,000	200,000	1.0%

Ownership	After Offering (1)					
	Before Offering				Number of	
	Number of		2009 PIPE		Shares of	Percentage of
	Shares of	Class A	Warrant	Other Shares	Common Stock	Common Stock
Common Stock	Warrants	Shares	Offered	Beneficially	Beneficially	
Beneficially	Offered (2)	Offered (3)	Offered	Owned	Owned	
Selling Stockholder	Owned	Offered (2)	Offered (3)	Offered	Owned	Owned
Washington Strategies 401(k)						
Plan (37)	125,000	25,000	50,000	-0-	50,000	*
Washington Strategies 401(K)						
Profit (38)	150,000	50,000	-0-	-0-	100,000	*
Watson, Britta	16,845	5,615	-0-	-0-	11,230	*
Whaley, Michael	35,000	10,000	5,000	-0-	20,000	*
Whittington Jr., K. Douglas	15,000	5,000	-0-	-0-	10,000	*
Wiebe, Rodney B.	7,500	2,500	-0-	-0-	5,000	*
Woodworth, William	6,810	2,270	-0-	-0-	4,540	*
Wyman Jr., Samuel D. IRA						
FCC as Custodian	5,000	-0-	5,000	-0-	-0-	*
Yori, Roberta T. and Victor Zuckerbrod (IRA), Todd A.	27,500	5,000	12,500	-0-	10,000	*
(39)	37,500	12,500	-0-	-0-	25,000	-0-
David Lies	4,089,528	1,310,720(47)	50,000	2,521,440(63)	-0-	-0-
Keith Guenther	375,000	125,000(40)	-0-	250,000(41)	-0-	-0-
William S. Daugherty	82,500	27,500(40)	-0-	55,000(41)	-0-	-0-
Gordon Clements	150,000	50,000(40)	-0-	100,000(41)	-0-	-0-
RCB Capital Markets LLC						
C/FBO Howard Miller	75,000	25,000(40)	-0-	50,000(41)	-0-	-0-
Jan and Gunnel Petterson	45,000	15,000(40)	-0-	30,000(41)	-0-	-0-
Thomas Glenndahl	63,750	21,250(40)	-0-	42,500(64)	-0-	-0-
Michael C. Brown Trust	300,000	100,000(40)	-0-	200,000(41)	-0-	-0-
Legend Merchant Banking						
Group (12)(13)	78,000	-0-	-0-	78,000(42)	-0-	-0-
Jim Mao	150,000	50,000(40)	-0-	100,000 (41)	-0-	-0-
Thimos LLC	21,000	7,000(40)	-0-	14,000(41)	-0-	-0-

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Bemat Financial Investment Ltd.	97,500	32,500(40)	-0-	65,000(41)	-0-	-0-
Richard A. Lannon MD IRA,						
RBC Capital Markets LLC						
Cust	18,000	6,000(40)	-0-	12,000(41)	-0-	-0-
Frederick W. Vogel	75,000	25,000(40)	-0-	50,000(41)	-0-	-0-
Orsak Family Trust Allen Revocable Trust U/A	600,000	200,000(40)(47)	-0-	400,000(65)	-0-	-0-
DTD 07/13/2003	75,000	25,000(40)	-0-	50,000(41)	-0-	-0-
Nils Welin	18,750	6,250(40)	-0-	12,500(41)	-0-	-0-
Beatrice Hom	75,000	25,000(40)	-0-	50,000(41)	-0-	-0-
RBC Capital Markets LLC						
Cust F/B/O Marlice Gardner	37,500	12,500(47)	-0-	25,000(48)	-0-	-0-
Xinyu Liu	150,000	50,000(47)	-0-	100,000(48)	-0-	-0-
Keith Guenther	375,000	125,000(47)	-0-	250,000(48)	-0-	-0-

	Ownership		After Offering (1)			
	Before Offering		2009 PIPE		Number of	
	Number of		Warrant	Other	Shares of	Percentage of
	Shares of	Class A	Shares	Shares	Common	Common
	Common Stock	Warrants	Offered	Offered	Stock	Stock
	Beneficially		(3)		Beneficially	Beneficially
<b>Selling Stockholder</b>	<b>Owned</b>	<b>Offered (2)</b>		<b>Offered</b>	<b>Owned</b>	<b>Owned</b>
J. Rune Sandell	75,000	25,000(47)	-0-	50,000(48)	-0-	-0-
First Equity Group Inc.	120,000	40,000(47)	-0-	80,000(48)	-0-	-0-
JAG Multi Investments LLC	225,000	75,000(47)	-0-	150,000(48)	-0-	-0-
Goren Brothers Limited Partnership	225,000	75,000(47)	-0-	150,000(48)	-0-	-0-
Goren Cousins I, LLC	150,000	50,000(47)	-0-	100,000(48)	-0-	-0-
Bemat Financial Investments, Ltd.	60,000	20,000(47)	-0-	40,000(48)	-0-	-0-
Staffan Lofgren	150,000	50,000(47)	-0-	100,000(48)	-0-	-0-
Peter L. Dalrymple	450,000	150,000(47)	-0-	300,000(48)	-0-	-0-
Bin Tu	150,000	50,000(47)	-0-	100,000(48)	-0-	-0-
Shihong Tu	150,000	50,000(47)	-0-	100,000(48)	-0-	-0-
Charles T. Osearo	37,500	12,500(47)	-0-	25,000(48)	-0-	-0-
Davidoff Hutcher & Citron LLP(43)	67,035	17,500	-0-	49,535(48)	-0-	-0-
Kaylynn Lim Caldwell	10,000	-0-	-0-	10,000	-0-	-0-
Charles Thomas Forest	3,000	-0-	-0-	3,000	-0-	-0-
Culian Ma	2,000	-0-	-0-	2,000	-0-	-0-
The Del Mar Consulting Group, Inc.	50,000	-0-	-0-	50,000	-0-	-0-
Michael Bayes	60,000	-0-	-0-	60,000(7)	-0-	-0-
Jeff Gosselin	509,533	-0-	-0-	509,533(50)	-0-	-0-
Colorado Financial Services Group	30,000	-0-	-0-	30,000(42)	-0-	-0-
Remanco, Inc.	79,368	-0-	-0-	79,368	-0-	-0-
Bradley C. Ellis	490,000	-0-	-0-	490,000(51)	-0-	-0-
360 Partners LLC	300,000	-0-	-0-	300,000(52)	-0-	-0-
JMJ Financial	75,000	-0-	-0-	75,000(49)	-0-	-0-
Philip Kranenburg	90,929(66)	-0-	-0-	38,209(53)	-0-	-0-
Dr. Johnny Thomas	2,000,000(54)(55)(57)	-0-	-0-	-0-	-0-	-0-
JRT Trust (54)(58)	750,000	-0-	-0-	750,000	-0-	-0-
Bosque FLP (57)	650,000	-0-	-0-	650,000	-0-	-0-
Manzano Limited Partnership (57)	600,000	-0-	-0-	600,000	-0-	-0-

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John Francis

2,000,000(55)(56)(57)

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	Ownership				After Offering (1)	
	Before Offering					
Number of Shares of	2009 PIPE				Number of Shares of	Percentage of
	Common Stock	Class A Warrants	Warrant Shares	Other Shares		
	Beneficially Owned	Beneficially Offered (2)	Beneficially Offered (3)	Beneficially Offered	Beneficially Owned	Beneficially Owned
Selling Stockholder						
Camelot FLP (59)	360,000	-0-	-0-	360,000	-0-	-0-
Putun, LLC (59)	800,000	-0-	-0-	800,000	-0-	-0-
CKC, LLC (56)	820,000	-0-	-0-	820,000	-0-	-0-
Cricket Trust (56)	10,000	-0-	-0-	10,000	-0-	-0-
Lady Bug Trust (56)	10,000	-0-	-0-	10,000	-0-	-0-
<b>TOTAL AMOUNT OF SHARES</b>	<b>42,888,325</b>	<b>8,832,126(45)</b>	<b>3,285,000</b>	<b>13,406,165(46)</b>		

\* Represents less than 1%

- (1) Represents the amount of shares that will be held by the selling stockholders after completion of this offering based on the assumptions that (a) all shares registered for sale by the registration statement of which this prospectus is part will be sold and (b) no other shares of our common stock are acquired or sold by the selling stockholders prior to completion of this offering. However, the selling stockholders may sell all, some or none of the shares offered pursuant to this prospectus and may sell other shares of our common stock that they may own pursuant to another registration statement under the Securities Act or sell some or all of their shares pursuant to an exemption from the registration provisions of the Securities Act, including under Rule 144. To our knowledge there are currently no agreements, arrangements or understanding with respect to the sale of any of the shares that may be held by the selling stockholders after completion of this offering or otherwise.
- (2) Shares issuable upon exercise of Class A Warrants to be issued following the effective date of this registration statement and registered for sale hereby to all stockholders of record on December 31, 2010 on the basis of one Class A Warrant for every two shares of Common Stock then owned. Also includes shares issuable upon exercise of Class A Warrants issued in the Company's 2011 Preferred Stock Offering and 2012 Preferred Stock Offering. An aggregate of 8,916,866 Class A Warrants, an equal number of shares of Common Stock issuable upon exercise of the Class A Warrant, plus 8,916,866 Class B Warrants issuable upon exercise of the Class A Warrants and an equal number of shares of Common Stock issuable upon exercise of the Class B Warrants and 8,916,866 Class C Warrants issuable upon exercise of the Class B

Warrants and an equal number of shares of Common Stock issuable upon exercise of the Class C Warrants have all been registered for resale in this registration statement.

- (3) Shares issuable upon exercise of an aggregate of 3,335,000 PIPE warrants issued in the 2009 Private Placement.
- (4) Includes 500,000 shares of Common Stock owned by Laird Cagan and 100,000 shares owned by his minor children; 50,000 shares granted to Mr. Cagan upon his election to the Board of Directors, 250,000 shares issuable upon exercise of currently exercisable warrants issued under this employment contract and 11,625 shares issuable upon exercise of Placement Agent Warrants issued in the 2009 Private Placement. Includes 437,500 shares issuable upon vested consultant warrants, but excludes 62,500 shares which became exercisable in November 2012
- (5) Included among 74,305 shares issued upon exercise of Placement Agent Warrants issued in the 2009 Private Placement.



- (6) 500,000 shares are issuable upon exercise of warrants and 100,000 restricted shares were granted in February 2011 to our Chairman of the Board and 11,625 shares are issuable upon exercise of Placement Agent Warrants issued in the 2009 Private Placement.
- (7) Up to 500,000 shares are issuable upon exercise of warrants issued in December 2010 to our investor relations firm and 660,000 shares are issuable upon exercise of warrants issued in March, 2012 to our investor relations firm and its employee.
- (8) Michael E. Baroody, as Beneficial Owner, has voting and dispositive power over these securities.
- (9) Michael C. Brown, as Trustee, has voting and dispositive power over these securities.
- (10) George M. Bradvica, as Trustee, has voting and dispositive power over these securities.
- (11) Laird Cagan, as Managing Member, has voting and dispositive power over these securities.
- (12) Selling stockholder is an underwriter of this offering. The Company has no material relationship with such selling stockholder other than as stated herein. The underwriter has no arrangement under which the underwriter may purchase additional shares in connection with this offering. At the time of acquisition of the securities, the selling stockholder had no understanding, directly or indirectly, with any person to distribute the securities being offered hereunder.
- (13) Denotes a broker-dealer.
- (14) Kenneth B. Kurica and Ashley. Wiechmann, as Trustees, have voting and dispositive power over these securities.
- (15) Paul Mannion, as Managing Member, has voting and dispositive power over these securities.
- (16) Dennis Gerecke, as EVP and COO, has voting and dispositive power over these securities.
- (17) Ian Crosby, James Colclough, Cora Binchy, Robert Douglas, Mervyn Ellis, Guy Gibson, Karen Oliver, Paul Roper, Philip Dean, Phillippe De Salis, Simon Harvey, Nigel Mifsud, Pauline Quach, Daniel Recordon, Aris Tatos, Christelle Theurillat, Olivier Perroud, Magali Garcia, Nicola Roberts, Nicholas Bernard, Samuel Caporossi, Raji Karattuparambil, Corinne Jaggy, and Phillipe Rauber, as Authorized Signatures, have voting and dispositive power over these securities.
- (18) John Liviakis, as Custodian, has voting and dispositive power over these securities.
- (19) John S. Lemak, Lacey E. Lemak, Eleanor J. Lemak, and Bailey A. Lemak, as Partners, have voting and dispositive power over these securities.
- (20) Linda U. Kuhlman, as Trustee, has voting and dispositive power over these securities.
- (21) David W. Unsworth Jr., as Member, has voting and dispositive power over these securities.
- (22) Lara Coviello, as Analyst, has voting and dispositive power over these securities.
- (23) John Liviakis, as a principal, has voting and disposition power over these securities.
- (24) Robert S. London, as Trustee, has voting and dispositive power over these securities.
- (25) Denotes the sister of our former Chairman, Mary Losty. Ms. Losty is not deemed to be the beneficial owner of securities held by such selling stockholder.
- (26) Denotes the brother and sister-in-law of our former Chairman, Mary Losty. Ms. Losty is not deemed to be the beneficial owner of securities held by such selling stockholder.
- (27) Denotes the brother of our former Chairman, Mary Losty. Ms. Losty is not deemed to be the beneficial owner of securities held by such selling stockholder.
- (28) Denotes an affiliate of a broker-dealer.
- (29) Daniel Rivers, as Beneficial Owner, has voting and dispositive power over these securities.
- (30) John Lemak, as Manager, has voting and dispositive power over these securities.



- (31) Samuel Sherman, as Manager, has voting and dispositive power over these securities.
- (32) Paul Ferreri, as CIO and Founder, has voting and dispositive power over these securities.
- (33) Daniel Rivers, as Trustee has voting and dispositive power over these securities.
- (34) James Molesky, as Trustee, has voting and dispositive power over these securities.
- (35) Charles N. Travers, as Trustee, has voting and dispositive power over these securities.
- (36) Michael T. Collins, as beneficial owner, has voting and dispositive power over these securities.
- (37) William Jarrell, as Beneficial Owner, has voting and dispositive power over these securities.
- (38) Jennifer Jarrell, as Beneficial Owner, has voting and dispositive power over these securities.
- (39) Todd A. Zuckerbrod, as Beneficial Owner, has voting and dispositive power over these securities.
- (40) Shares issuable upon exercise of Class A warrants issued in our 2011 Preferred Stock Offering.
- (41) Shares issuable upon conversion of Series A Preferred Stock issued in our 2011 Series A Preferred Stock Offering.
- (42) Shares issuable upon exercise of placement agent warrants issued in our 2011 Series A Preferred Stock Offering.
- (43) Attorneys for Blue Earth Inc., now known as Davidoff Hutcher & Citron LLP.
- (44) Members of the Company's Energy Efficiency Advisory Board.
- (45) Consists of: (i) 5,927,616 shares of Common Stock issuable upon exercise of Class A Warrants issuable upon the effective date of this Registration Statement to shareholders of record as of December 31, 2010, and (ii) 1,489,250 shares of Common Stock issuable upon exercise of Class A Warrants issued to date in our 2011 Series A Preferred Stock Offering and 1,415,260 shares of Common Stock issuable upon exercise of Class A Warrants issued to date in the Series B Preferred Stock Offering.
- (46) Include 2,978,500 shares of Common Stock issuable upon conversion of Series A Preferred Stock issued in our 2011 Series A Preferred Stock Offering and 2,830,520 shares of Common Stock issuable upon conversion of Series B Preferred Stock issued in our 2012 Series B Preferred Stock Offering; however, excludes the remaining 169,480 shares issuable upon exercise of the remaining Series B Preferred Stock.
- (47) Shares issuable upon exercise of Class A Warrants issued in our 2012 Series B Preferred Stock Offering.
- (48) Shares issuable upon conversion of Series B Preferred Stock issued in our 2012 Series B Preferred Stock Offering.
- (49) Shares issuable upon exercise of Bridge Warrants issued in connection with our May - July 2012 Bridge Financing, exercisable at \$0.10 per share.
- (50) Shares issued to a former principal of our subsidiary, Xnergy, Inc., upon conversion of debt to equity.
- (51) Includes 400,000 shares of Common Stock issuable upon issuance of warrants granted to an independent consultant on May 7, 2012, exercisable at \$1.34 per share.
- (52) Shares issuable upon exercise of warrants granted to an independent consultant on May 7, 2012, exercisable at \$1.32 per share.
- (53) Includes 52,720 shares issuable upon exercise of options and 38,209 shares issued to our former Chief Financial Officer pursuant to a settlement agreement.

- (54) Shares issuable upon exercise of warrants assigned by Johnny R. Thomas to these entities for estate planning purposes over which shares he disclaims beneficial ownership pursuant to Rule 13(d)(3) under the Exchange Act, except for underlying shares held by JRT Trust of which Johnny Thomas is a trustee and beneficiary.
- (55) One million shares are issuable upon exercise of management warrants assigned by each of Johnny R. Thomas and John C. Francis to affiliates for estate planning purpose and for which warrants and underlying shares Messrs. Thomas and Francis disclaim beneficial ownership (except where noted), although included in the above table since the warrants were issued pursuant to their respective employment agreements. These Warrants are exercisable for ten (10) years at \$1.00 per share. The first 100,000 warrants vested upon grant, and the next 150,000 warrants vested on October 31, 2010, while the remaining 750,000 warrants vest in three equal installments on the first, second and third anniversaries of the signing of the employment agreement. The vesting schedule accelerates to full vesting upon the Company achieving aggregate revenue of \$12,500,000 for two consecutive quarters and the Company records a pre-tax net profit for such two quarters. These warrants also vest when the holders exercise the warrants and purchase Common Stock and are therefore currently exercisable.
- (56) Shares issued upon exercise of warrants assigned by John C. Francis to these entities for estate planning purposes over which shares he disclaims beneficial ownership pursuant to Rule 13(d)(3) under the Exchange Act, except for underlying shares held by Camelot FLP and Putun, LLC which are owned by John C. Francis.
- (57) Johnny R. Thomas and John C. Francis were each awarded additional five-year performance warrants to purchase 1,000,000 shares each at an exercise price of \$1.25 per share. Dr. Thomas disclaimed beneficial ownership of 250,000 performance Warrants held by Manzano Limited Partnership and Bosque FLP. The warrants will vest if and when the Company achieves certain revenues, net income and/or EBITDA milestones for four trailing quarters and can be exercised at any time by paying consideration for the exercise price. For each executive officer, a total of 412,500 warrants vest upon four different milestones when annual revenues exceed revenue milestones increasing from \$50 to \$200 million. Achieving net income levels in excess of \$0.20/share to more than \$0.50/share will vest 262,500 warrants upon four different milestones. The remaining 325,000 warrants will vest upon four different milestones when the Company's EBITDA performance exceeds \$0.40/share to more than \$1.00 per share.
- (58) The JRT Trust is beneficially owned by Dr. Johnny R. Thomas.
- (59) Camelot FLP and Putun, LLC are beneficially owned by John Francis.
- (60) Consists of 4,250 shares issued upon exercise of Placement Agent Warrants issued in our 2009 Private Placement and 17,000 shares issuable upon exercise of placement agent warrants issued in our 2011 Series A Preferred Stock Offering.
- (61) Consists of (i) 757,391 shares issuable upon exercise of Class A Warrants to be distributed to Stockholders of record on December 31, 2010, and (ii) 100,790 shares issuable upon exercise of Class A Warrants issued in our 2012 Series B Preferred Stock Offering.
- (62) Consists of (i) 50,000 shares issuable upon exercise of Class A Warrants to be distributed to Stockholders of record on December 31, 2010, and (ii) 1,260,720 shares issuable upon exercise of Warrants issued in our 2011 Series A Preferred Stock Offering and 2012 Series B Preferred Stock Offering.
- (63) Consists of 1,610,000 shares issuable upon conversion of Series A Preferred Stock and 911,440 shares issued upon conversion of Series B Preferred Stock.
- (64) Consists of 30,000 shares issuable upon conversion of Series A Preferred Stock and 12,500 shares issuable upon conversion of Series B Preferred Stock.
- (65) Consists of 300,000 shares issuable upon conversion of Series A Preferred Stock and 100,000 shares issuable upon conversion of Series B Preferred Stock.
- (66) Includes options to purchase 52,720 shares of Common Stock at an exercise price of \$1.37 per share.



## DESCRIPTION OF SECURITIES

### Authorized and Outstanding Capital Stock

The following description of our capital stock and provisions of our articles of incorporation and by-laws are summaries and are qualified by reference to our articles of incorporation and by-laws. Copies of these documents have been filed with the SEC as exhibits to our registration statement, of which this prospectus forms a part.

We have authorized 125,000,000 shares of capital stock, par value \$0.001 per share, of which 100,000,000 are shares of common stock and 25,000,000 are shares of blank check preferred stock.

As of October 19, 2012 we had the following issued and outstanding securities on a fully diluted basis:

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19,451,836 shares of common stock;

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297,850 shares of Series A Preferred Stock convertible at the rate of ten (10) shares of Common Stock for each share of Preferred Stock for an aggregate of 2,978,500 Shares of Common Stock are issued.

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283,052 shares of Series B Preferred Stock convertible into an aggregate of 3,000,000 shares of Common Stock are authorized of which 283,052 shares are currently issued and outstanding.

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Warrants to purchase 3,342,500 shares of common stock, of which (i) three-year callable warrants to purchase 3,285,000 shares of common stock at an exercise price of \$2.00 per share were issued to investors in the Private Placement and (ii) two-year warrants to purchase 57,500 shares of common stock at an exercise price of \$1.25 per share were issued to the Placement Agents in connection with the Private Placement; and

Management warrants to purchase 2,000,000 shares of common stock exercisable for 10 years at \$1.00 per share (52,000 of which had been issued as of July 19, 2012) issued to designees of Johnny R. Thomas and John C. Francis upon execution of their respective employment contracts and performance warrants to purchase 2,000,000 shares of common stock exercisable for 5 years at \$1.25 per shares were issued in connection with amendments to management's employment contracts on March 1, 2011.

Class A warrants issued in our 2011 Series A Preferred Stock Offering to purchase 1,489,250 shares of common stock and 1,489,250 Class B warrants exercisable for 1,489,250 shares of common stock and 1,489,250 Class C warrants exercisable for 1,489,250 shares of common stock. Placement Agent Warrants to purchase 98,000 shares of Common Stock at \$1.75 per share are currently issued and outstanding.

Class A Warrants issued in our 2012 Series B Preferred Stock Offering to purchase 1,415,260 Shares of Common Stock and 1,415,260 Class B Warrants issuable for 1,415,260 Shares of Common Stock and 1,415,260 Class C Warrant exercisable for 1,415,260 Share of Common Stock.

Warrants to purchase: 500,000 shares of common stock at \$1.74 per share were issued to our investor relations firm in December 2010 and Warrants to purchase 660,000 Shares of Common Stock at \$1.39 per Share were issued to our investor relations firm and its employee in March 2012; 500,000 shares of common stock at \$1.24 per share were issued to our Chairman of the Board and his designees in February 2011 for consulting services; warrants to purchase 400,000 shares of Common Stock at \$1.34 per share to an independent consultant in May, 2012; warrants to purchase 300,000 shares of Common Stock at \$1.32 per share to our independent consultant in May 2012; and warrants to purchase 100,000 shares of Common Stock at \$1.00 per share to a law firm in July 2012.

Warrants issued in our May - August 2012 Bridge Financing to purchase 75,000 shares of Common Stock at \$0.10 per share. For each \$100,000 loaned a lender receives 25,000 warrants which are not exercisable before September 1, 2012. Bridge Warrants to purchase 75,000 shares are currently issued and outstanding.

Class A warrants to be distributed upon the effective date of this Registration Statement to all shareholders of record on December 31, 2010 to purchase at \$3.00 per share through December 31, 2013, 5,927,616 shares of common stock and 5,927,616 Class B Warrants, exercisable at \$6.00 per share for three (3) years from the date of issuance to purchase 5,927,616 shares of common stock and 5,927,616 Class C Warrants exercisable for three (3) years from the date of issuance to purchase 5,927,616 shares of common stock, all subject to redemption as described below.

## **Common Stock**

The holders of our common stock are entitled to one vote per share. In addition, the holders of our common stock will be entitled to receive ratably dividends, if any, declared by our board of directors out of legally available funds; however, the current policy of our board of directors is to retain earnings, if any, for operations and growth. Upon liquidation, dissolution or winding-up, the holders of our common stock will be entitled to share ratably in all assets that are legally available for distribution. The holders of our common stock will have no preemptive, subscription, redemption or conversion rights. The rights, preferences and privileges of holders of our common stock will be subject to, and may be adversely affected by, the rights of the holders of any series of preferred stock, which may be designated solely by action of our board of directors and issued in the future.

## **Preferred Stock**



Our board of directors will be authorized, subject to any limitations prescribed by law, without further vote or action by our stockholders, to issue from time to time shares of preferred stock in one or more series. Each series of preferred stock will have the number of shares, designations, preferences, voting powers, qualifications and special or relative rights or privileges as shall be determined by our board of directors, which may include, among others, dividend rights, voting rights, liquidation preferences, conversion rights and preemptive rights.

On September 29, 2011, the Company filed a Certificate of Designation and Preferences with the Secretary of State of Nevada to authorize the issuance of up to 300,000 shares of Series A Convertible Preferred Stock, \$10.00 face value, \$.001 par value per share ( Series A Preferred Stock ). The Series A Preferred Stock is being offered in a private placement (the Preferred Stock Offering ) of Units each consisting of one share of Series A Preferred Stock at \$10.00 per share and warrants to purchase one share of Common Stock for each two shares of Common Stock issuable upon conversion of Preferred Stock. An aggregate of 297,850 shares of Series A Preferred Stock were issued and outstanding convertible into 2,978,500 shares of Common Stock. The Series A Preferred Stock will pay dividends at 8% per annum if paid in cash, or 12% if paid in Common Stock. In the event of a mandatory conversion (see below) prior to the payment of the first year of dividends, the Company will pay the holder such dividends equal to what the holder was to receive for the first full year from the date of issuance. Each share of Series A Preferred Stock is convertible at a rate of ten (10) shares of Common Stock, or \$1.00 per share. Each share not previously converted by the holder shall be automatically converted by the Company at \$1.00 per share (unless adjusted) upon the first to occur: (i) the fourth anniversary date of the issuance of the Series A Preferred Stock, or (ii) the closing price of the Common Stock trades at least \$3.00 per share for 60 consecutive calendar days. The Series A Preferred Stock carries a \$10.00 per share liquidation preference plus unpaid dividends, and votes on an as converted basis with the Common Stock.

On April 2, 2012, the Company filed a Certificate of Designation and Preference to authorize the issuance of up to 300,000 Shares of Series B Convertible Preferred Stock, \$10.00 face value, \$.001 par value per share ( Series B Preferred Stock ). The Series B Preferred Stock is virtually identical to the Series A Preferred Stock except it may be automatically converted by the Company at \$1.00 per share of the closing price of the Company's Common Stock trades at least \$2.25 (rather than \$3.00) per share for 60 consecutive calendar days. As of October 5, 2012, an aggregate of 283,052 shares of Series B Preferred Stock were issued and outstanding convertible into 2,830,520 shares of Common Stock.

## **Warrant Shares Offered Under this Prospectus**

### ***2009 Private Placement***

We issued three-year warrants to purchase 3,412,500 shares of our common stock (of which 3,335,000 are currently issued and outstanding and registered for resale hereby), at an exercise price of \$2.00 per share to investors in the Private Placement. We also issued two-year warrants to the Placement Agents to purchase an aggregate of 107,500 shares (of which 50,000 Warrants have been exercised) of our common stock, at an initial cash exercise price of \$1.25 per share, in connection with their efforts as placement agents in connection with the Private Placement. We are prohibited from effecting the exercise of the warrants to the extent that as a result of the exercise the holder of the exercised warrants beneficially owns more than 4.99% (or, if this limitation is waived by the holder upon no less than 61 days prior notice to us, 9.99%) in the aggregate of the issued and outstanding shares of our common stock calculated immediately after giving effect to the issuance of shares of common stock upon the exercise of the warrants. Prior to exercise, the warrants do not confer upon holders any voting or any other rights as a stockholder. In addition, so long as the underlying shares of common stock are registered in an effective registration statement, if and when shares of the common stock are trading at or above \$3.50 per share for 20 consecutive trading days, we will have the option to redeem the three-year warrants from the investors for a purchase price of \$0.001 per share. A holder of three-year warrants will have 10 days following notice to convert their warrants or we may retire the warrants upon the payment of \$0.001 per share underlying each warrant. The warrants contain provisions that protect the holders against dilution by adjustment of the purchase price in certain events such as stock dividends, stock splits and other similar events. In addition, the warrants have anti-dilution protection in the event we issue securities at a value less than \$1.00 per share (see *Future Stock Issuances* below). No fractional shares will be issued upon exercise of the warrants. If, upon exercise of the warrants, a holder would be entitled to receive a fractional interest in a share, we may, in our discretion, upon exercise, round up to the nearest whole number the number of shares of our common stock to be issued to the warrant holder or otherwise equitably adjust the exercise amount and exercise price per share.

### ***Class A, B and C Warrants***

As part of the Company's spin-off of the business of GFS, the Board of Directors authorized the grant to each shareholder of record as of December 31, 2010, for no additional consideration, one Class A Common Stock Purchase Warrant for each two (2) shares of the Company's Common Stock then owned by such shareholder. The Class A Warrants will be distributed promptly following the effective date of this prospectus. The Warrant exercises and issuances of underlying common stock are intended to serve as a funding vehicle to further capitalize the Company.

Each Class A Warrant is exercisable at \$3.00 per share (the *Exercise Price* ), until December 31, 2013;

Upon exercise of a Class A Warrant, a holder thereof will receive in addition to one share of common stock, a Class B Common Stock Purchase Warrant exercisable at \$6.00 per share, for a period of three (3) years from the date of issuance of such Class B Warrant; and

Upon exercise of a Class B Warrant, a holder will receive in addition to one share of common stock, a Class C Common Stock Purchase Warrant exercisable at \$12.00 per share, for a period of three (3) years from the date of issuance of such Class C Warrant (collectively, the Warrants ).

The Exercise Price may be paid in non-cash consideration (e.g., property or promissory notes) at fair market value deemed acceptable by the Company.

Upon prior written notice, the Exercise Price of the Warrants may be temporarily reduced. At the end of such discretionary reduction period, the price shall revert back to the original Exercise Price.

All Warrants shall be redeemable on at least 30 days prior written notice, at \$.001 per share, with the Company's right to simultaneously transfer those Warrants not exercised to accredited investors who have agreed to be standby purchasers. Any presently unidentified standby purchaser will be deemed to be an underwriter under the Securities Act and subject to the prospectus delivery requirements of the Securities Act.

The exercise price is subject to adjustment for dividends or other distributions, reorganizations, consolidations, mergers or sale, but not for price protection, other than a discretionary temporary reduction as set forth above.

All underlying shares of Common Stock are being registered with the SEC under this registration statement.



Pursuant to the 2011 Series A Preferred Stock Offering, the Company issued 297,850 Units at \$10 per Unit consisting of shares of Series A Preferred Stock and Class A Warrants, identical to the ones described above, to purchase one share of Common Stock (up to 1,489,250 shares) for each two shares of Common Stock (up to 2,978,500 shares) issuable upon conversion of the Series A Preferred Stock.

Pursuant to the 2012 Series B Preferred Stock Offering, the Company issued 283,052 Units at \$10 per Unit consisting of 283,052 Shares of Series B Preferred Stock and Class A Warrants identical to the ones described above to purchase one share of Common Stock (1,415,260 Shares) for each two Shares of Common Stock issuable upon conversion of the Series B Preferred Stock.

### *Consultant Warrants*

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On December 21, 2010, the Company issued warrants to purchase 500,000 shares of Common Stock at \$1.74 per share to Liviakis Financial Communications, Inc. for investor relation services. These warrants are exercisable until March 10, 2013.

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On February 21, 2011, the Company issued ten-year warrants to purchase 500,000 shares of Common Stock at \$1.24 per share to Laird Q. Cagan, an independent director and his designees, for consulting services.

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On April 19, 2012, the Company issued warrants to purchase 600,000 shares of Common Stock at \$1.39 per share to Liviakis Financial Communications, Inc. and 60,000 to Michael Bayes, in consideration of an extension to their investor relations agreement. The warrants are exercisable until May 10, 2018 (subject to adjustment).

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On May 7, 2012, the Company issued warrants to purchase 400,000 shares of Common Stock at \$1.34 per share to Bradley C. Ellis, an independent consultant.

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On May 7, 2012, the Company issued warrants to purchase 300,000 shares of Common Stock at \$1.32 per share to 360 Partners LLC, an independent consultant.

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On July 10, 2012, the Company issued warrants to purchase 100,000 shares of Common Stock at \$1.00 per share to a lawyer representing the Company.

***Placement Agent Warrants***

As part of the 2011 Series A Preferred Stock Offering, the Company has issued five year warrants to its placement agents to purchase an aggregate of 95,500 shares of Common Stock at \$1.75 per share.

As part of the 2012 Series B Preferred Stock Offering, the Company has issued five year warrants to its placement agents to purchase 120,250 Shares of Common Stock at \$1.75 per share as of October 5, 2012.

***Management Warrants***

Management warrants to purchase 2,000,000 shares of Common Stock exercisable for 10 years at \$1.00 per share issued to designees of Johnny R. Thomas and John C. Francis upon execution of their respective employment contracts and performance warrants to purchase 2,000,000 shares of common stock exercisable for 5 years at \$1.25 per shares were issued in connection with amendments to management s employment contracts on March 1, 2011.

***Bridge Warrants***

On May 14, 2012, the Company issued 25,000 Bridge Warrants to JMJ Financial in connection with a May 2012 Bridge Financing in exchange for a loan of \$100,000 and on July 30, 2012, 50,000 Bridge Warrants in consideration of a loan of \$200,000. For each \$100,000 loaned to the Company at 10% per annum, the lender receives 25,000 warrants exercisable at \$0.10 per share. The warrants are exercisable until October 1, 2013.

## **Registration Rights**

We agreed to file a resale registration statement with the SEC covering all shares of our common stock included within the Units sold in the 2009 Private Placement and underlying any warrants as well as the shares underlying the Placement Agent warrants. However, in excess of a majority of the securities issued by the Company pursuant to its 2009 Private Placement waived any and all past, present and future rights all holders may have under their Registration Rights Agreement with the Company. Once the Board of Directors decided on a new strategy this past summer they determined that it would not be in the Company's best interest to continue to pursue the effectiveness of its pending registration statement, which it has now withdrawn, as the holders of common stock will be eligible for sales under Rule 144 commencing in November 2010 and the shares underlying the warrants are being registered hereby.

## **Transfer Agent**

Our transfer agent is Empire Stock Transfer, 1859 Whitney Mesa Drive, Henderson, NV 89014.

## **Indemnification of Directors and Officers**

Section 718.7502 of the Nevada Revised Statutes ( NRS ) provides, in general, that a corporation incorporated under the laws of the State of Nevada, as we are, may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding whether civil, criminal, administrative or investigative (other than a derivative action by or in the right of the corporation) by reason of the fact that such person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding if such person (a) is not liable pursuant to Section 73.138 of the NRS, and (b) acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the corporation and, with respect to any criminal action or proceeding, had no reasonable cause to believe such person's conduct was unlawful. In the case of a derivative action, a Nevada corporation may indemnify any such person against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection with the defense or settlement of such action or suit if such person (a) is not liable pursuant to Section 73.138 of the NRS, and (b) acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the corporation.

Our Articles of Incorporation and Bylaws provide that we will indemnify our directors, officers, employees and agents to the extent and in the manner permitted by the provisions of the NRS, as amended from time to time, subject to any permissible expansion or limitation of such indemnification, as may be set forth in any stockholders' or directors'

resolution or by contract. In addition, our director and officer indemnification agreements with each of our directors and officers provide, among other things, for the indemnification to the fullest extent permitted or required by Nevada law, provided that no indemnitee will be entitled to indemnification in connection with any claim initiated by the indemnitee against us or our directors or officers unless we join or consent to the initiation of the claim, or the purchase and sale of securities by the indemnitee in violation of Section 16(b) of the Exchange Act.

Any repeal or modification of these provisions approved by our stockholders will be prospective only and will not adversely affect any limitation on the liability of any of our directors or officers existing as of the time of such repeal or modification.

We are also permitted to maintain insurance on behalf of any director, officer, employee or other agent for liability arising out of his actions, whether or not the NRS would permit indemnification.

#### **Disclosure of Commission Position on Indemnification for Securities Act Liabilities**

Insofar as indemnification for liabilities under the Securities Act may be permitted to officers, directors or persons controlling the Company pursuant to the foregoing provisions, the Company has been informed that it is the opinion of the Securities and Exchange Commission that such indemnification against public policy as expressed in such Securities Act and is, therefore, unenforceable.

#### **Anti-Takeover Effect of Nevada Law, Certain By-Law Provisions**

Certain provisions of our Bylaws are intended to strengthen the board of directors position in the event of a hostile takeover attempt. These provisions have the following effects:



We are subject to the provisions of NRS 78.378 to 78.3793, inclusive, an anti-takeover law which applies to any acquisition of a controlling interest in an "issuing corporation." In general, such anti-takeover laws permit the articles of incorporation, bylaws or a resolution adopted by the directors of an "issuing corporation" (as defined in NRS 78.3788) to impose stricter requirements on the acquisition of a controlling interest in such corporation than the provisions of NRS 78.378 to 78.3793, inclusive, as well as permit the directors of an issuing corporation to take action to protect the interests of the corporation and its stockholders, including, but not limited to, adopting plans, arrangements or other instruments that grant or deny rights, privileges, power or authority to holder(s) of certain percentages of ownership and/or voting power. Further, an "acquiring person" (and those acting in association) only obtains such voting rights in the control shares as are conferred by resolution of the stockholders at either a special meeting requested by the acquiring person, provided it delivers an offeror's statement pursuant to NRS 78.3789 and undertakes to pay the expenses thereof, or at the next special or annual meeting of stockholders. In addition, the anti-takeover law generally provides for (i) the redemption by the issuing corporation of not less than all of the "control shares" (as defined) in accordance with NRS 78.3792, if so provided in the articles of incorporation or bylaws in effect on the 10th day following the acquisition of a controlling interest in an "issuing corporation", and (ii) dissenter's rights pursuant to NRS 92A.300 to 92A.500, inclusive, for stockholders that voted against authorizing voting rights for the control shares.

We are also subject to the provisions of NRS 78.411 to 78.444, inclusive, which generally prohibits a publicly held Nevada corporation from engaging in a "combination" with an "interested stockholder" (each as defined) that is the beneficial owner, directly or indirectly, of at least ten percent of the voting power of the outstanding voting shares of the corporation or is an affiliate or associate of the corporation that previously held such voting power within the past three years, for a period of three years after the date the person first became an "interested stockholder", subject to certain exceptions for authorized combinations, as provided therein.

In accordance with NRS 78.195, our articles of incorporation provide for the authority of the board of directors to issue shares of preferred stock in series by filing a certificate of designation to establish from time to time the number of shares to be included in such series and to fix the designation, powers, preferences and rights of the shares of each such series and the qualifications, limitations or restrictions thereof, subject to limitations prescribed by law.

## **PLAN OF DISTRIBUTION**

Each selling stockholder and any of their pledgees, assignees and successors-in-interest may, from time to time, sell any or all of their shares of common stock on the over-the-counter market or any other stock exchange, market or trading facility on which the shares are traded, or in private transactions. These sales may be at fixed or negotiated prices. The distribution of the shares by the selling stockholders is not currently subject to any underwriting agreement. Each selling stockholder must use a broker-dealer which is registered in the state in which the selling stockholder seeks to sell their shares. A selling stockholder may use any one or more of the following methods when selling shares:

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ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;

.  
block trades in which the broker-dealer will attempt to sell the shares as agent, but may position and resell a portion of the block as principal to facilitate the transaction;

.  
purchases by a broker-dealer as principal and resale by the broker-dealer for its account;

.  
conducting business in places where business practices and customs are unfamiliar and unknown;

.  
an exchange distribution in accordance with the rules of the applicable exchange;

.  
privately negotiated transactions;

.  
settlement of short sales entered into after the date of this prospectus;

.  
broker-dealers may agree with the selling stockholders to sell a specified number of the shares at a stipulated price per share;

a combination of any of these methods of sale;

.

through the writing or settlement of options or other hedging transactions, whether through an options exchange or otherwise; or

.

any other method permitted pursuant to applicable law.

The selling stockholders may also sell shares under Rule 144 under the Securities Act, if available, rather than under this prospectus.

The Company has not engaged any FINRA member firms to participate in the distribution of securities, except to the extent that certain broker dealers described below shall be selling shareholders in connection with certain warrants and underlying shares of Common Stock received in their capacity as placement agents for earlier private offerings. Broker-dealers engaged by the selling stockholders may arrange for other brokers-dealers to participate in sales. Broker-dealers may receive commissions or discounts from the selling stockholders (or, if any broker-dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be negotiated. Each selling stockholder does not expect these commissions and discounts relating to its sales of shares to exceed what is customary in the types of transactions involved.

GarWood Securities LLC, Colorado Financial Service Corp., WFG Investments, Inc., Legend Merchant Group, and Jesup & Lamont Securities Corp. are registered broker-dealers and FINRA member firms and listed as selling stockholders in this prospectus. Notwithstanding, none of these firms are participating in the distribution of securities on behalf of the Company, except to extent each such firm shall be selling shareholders in connection with warrants and underlying shares of Common Stock previously received pursuant to certain private offerings. Colorado Financial Service Corporation, WFG Investments, Inc., Legend Merchant Group and Jessup & Lamont Securities Group served as placement agents in our 2009 Private Placement, and received, in addition to cash commissions, warrants to purchase an aggregate of 33,000, 14,000, 8,000 and 2,500 shares of our common stock, respectively, with an exercise price of \$1.25 per share. In addition, GarWood Securities LLC received warrants to purchase an aggregate of 50,000 shares of common stock effective on November 10, 2009, which expired on November 11, 2011 and were exercised on a cashless basis resulting in the issuance of an aggregate of 16,805 shares which are being registered on this registration statement. The registration statement of which this prospectus forms a part includes the shares of common stock underlying the warrants held by these firms and certain associated persons. The SEC has indicated that it is their position that any broker-dealer firm which is a selling stockholder is deemed an underwriter and therefore these firms may be deemed an underwriter with respect to the securities being sold by them.

Of the total of 33,000 warrants held by Colorado Financial Service Corp. (or its associated persons as listed in the Selling Stockholders table above), 13,000 were received in connection with the 2009 Private Placement closing on October 30, 2009 and the remainder were received in connection with the final closing of the 2009 Private Placement on December 29, 2009, and expire on October 30, 2011 and December 29, 2011, respectively. The 14,000 warrants held by WFG Investments, Inc. (or its associated persons as listed in the Selling Stockholders table above) were received in connection with the 2009 Private Placement closing on October 30, 2009, and expire on October 30, 2011. Of the total of 8,000 warrants held by Legend Merchant Group (or its associated persons as listed in the Selling Stockholders table above), 2,000 were received in connection with the Private Placement closing on November 19, 2009 and the remainder were received in connection with the final closing of the 2009 Private Placement on December 29, 2009, and expire on November 19, 2011 and December 29, 2011, respectively. The 2,500 warrants held by Jesup & Lamont Securities Corp (or its associated persons as listed in the Selling Stockholders table above) were received in connection with the final closing of the 2009 Private Placement on December 29, 2009, and expire on December 29, 2011. The 107,500 shares of common stock issued or issuable upon conversion of Placement Agent warrants received by these firms (or their assignees as indicated in the Selling Stockholders table above) are restricted from sale, transfer, assignment, pledge or hypothecation or being the subject of any hedging, short sale, derivative,

put, or call transaction that would result in the effective economic disposition of the securities by any person for a period of 180 days immediately following the effective date of the registration statement, of which this prospectus forms a part, except transfers of the warrants to officers or partners within these firms as allowed under FINRA Rule 5110(c)(3).

Legend Merchant Group received warrants to purchase 80,500 shares of common stock in connection with the 2011 Series A Preferred Stock Offering (65,500 shares) and the 2012 Series B Preferred Stock Offering (15,000 shares). The warrants expire on various dates through 2017. Legend Merchant Group had a previous affiliation with a registered FINRA member. Currently, Legend Merchant Group is not a FINRA member.

Colorado Financial Service Corp., and its assignee, received warrants to purchase 30,000 shares of common stock in connection with the 2011 Series A Preferred Stock Offering. The warrants expire on various dates through 2016.

Each of these firms has indicated to us its willingness to act as selling agent on behalf of certain of the selling stockholders named in this prospectus under Selling Stockholders that purchased our privately placed securities. All shares sold, if any, on behalf of selling stockholders by these firms would be in transactions executed by these firms on an agency basis and commissions charged to its customers in connection with each transaction shall not exceed a maximum of 4.5% of the gross proceeds. These firms do not have an underwriting agreement with us and/or the selling stockholders and no selling stockholders are required to execute transactions through these firms. Further, other than their existing brokerage relationship as customers with these firms, no selling stockholders have any pre-arranged agreement, written or otherwise, with these firms to sell their securities through these firms.

FINRA Rule 5110 (previously 2710) requires FINRA member firms (unless an exemption applies) to satisfy the filing requirements of Rule 2710 in connection with the resale, on behalf of selling stockholders, of the securities on a principal or agency basis. FINRA Notice to Members 88-101 states that in the event a selling stockholder intends to sell any of the shares registered for resale in this Prospectus through a member of FINRA participating in a distribution of our securities, the member is responsible for ensuring that a timely filing, if required, is first made with the Corporate Finance Department of FINRA and disclosing to FINRA the following:

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it intends to take possession of the registered securities or to facilitate the transfer of the certificates;

.  
the complete details of how the selling shareholders shares are and will be held, including location of the particular accounts;

.  
whether the member firm or any direct or indirect affiliates thereof have entered into, will facilitate or otherwise participate in any type of payment transaction with the selling shareholders, including details regarding these transactions; and

.  
in the event any of the securities offered by the selling shareholders are sold, transferred, assigned or hypothecated by any selling shareholder in a transaction that directly or indirectly involves a member firm of FINRA or any affiliates thereof, that prior to or at the time of said transaction the member firm will timely file for review with the Corporate Finance Department of FINRA all relevant documents with respect to these transactions.

No FINRA member firm may receive compensation in excess of that allowable under FINRA rules, including Rule 5110, in connection with the resale of the securities by the selling shareholders, which total compensation may not exceed 8%.

We have advised the selling stockholders that the anti-manipulation rules of Regulation M under the Exchange Act may apply to sales of shares in the market and to the activities of the selling stockholders and their affiliates. In addition, we will make copies of this Prospectus available to the selling stockholders for the purpose of satisfying the Prospectus delivery requirements of the Securities Act.

In connection with the sale of our common stock or interests therein, the selling stockholders may enter into hedging transactions with broker-dealers or other financial institutions, which may in turn engage in short sales of the common stock in the course of hedging the positions they assume. The selling stockholders may also sell shares of our common stock short and deliver these securities to close out their short positions, or loan or pledge the common stock to broker-dealers that in turn may sell these securities. The selling stockholders may also enter into option or other transactions with broker-dealers or other financial institutions or the creation of one or more derivative securities which require the delivery to these broker-dealers or other financial institutions of shares offered by this prospectus, which shares these broker-dealers or other financial institutions may resell pursuant to this prospectus (as supplemented or amended to reflect these transactions).

The selling stockholders and any broker-dealers or agents that are involved in selling the shares may be deemed to be underwriters within the meaning of the Securities Act in connection with these sales. In this event, any commissions received by these broker-dealers or agents and any profit on the resale of the shares purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act. Each selling stockholder has informed us that it does not have any agreement or understanding, directly or indirectly, with any person to distribute the common stock. In no event shall any broker-dealer receive fees, commissions and markups which, in the aggregate, would exceed eight percent (8%).

We are required to pay certain fees and expenses incurred by us incident to the registration of the shares. We have agreed to indemnify the selling stockholders against certain losses, claims, damages and liabilities, including liabilities under the Securities Act.

The selling stockholders may agree to indemnify any agent, dealer or broker-dealer that participates in transactions involving sales of the shares against certain liabilities, including liabilities arising under the Securities Act.





Because selling stockholders may be deemed to be underwriters within the meaning of the Securities Act, they will be subject to the prospectus delivery requirements of the Securities Act. In addition, any securities covered by this prospectus which qualify for sale pursuant to Rule 144 under the Securities Act may be sold under Rule 144 rather than under this prospectus. There is no underwriter or coordinating broker acting in connection with the proposed sale of the shares by the selling stockholders.

Under applicable rules and regulations under the Exchange Act, any person engaged in the distribution of the shares may not simultaneously engage in market making activities with respect to our common stock for a period of two business days prior to the commencement of the distribution. In addition, the selling stockholders will be subject to applicable provisions of the Exchange Act and the rules and regulations thereunder, including Regulation M, which may limit the timing of purchases and sales of shares of our common stock by the selling stockholders or any other person. We will make copies of this prospectus available to the selling stockholders and have informed them of the need to deliver a copy of this prospectus to each purchaser at or prior to the time of the sale.

## **LEGAL MATTERS**

Davidoff Hutcher & Citron LLP, 605 Third Avenue, New York, New York 10158, will pass upon the validity of the shares of our common stock and Warrants to be sold in this offering. Davidoff Hutcher & Citron LLP owns 14,535 shares of Common Stock and 35,000 shares of Common Stock underlying Series B Preferred Stock and 17,500 shares of Common Stock underlying Class A Warrants of the Company which are included in this Prospectus.

## **EXPERTS**

The financial statements as of and for the years ended December 31, 2010 and 2011 included in this prospectus have been audited by Lake & Associates, C.P.A. s. an independent registered public accounting firm as set forth in their report, and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

**WHERE YOU CAN FIND ADDITIONAL INFORMATION**

We have filed with the SEC a registration statement on Form S-1, together with any amendments and related exhibits, under the Securities Act with respect to our shares of common stock offered by this prospectus. The registration statement contains additional information about us and our shares of common stock that we are offering in this prospectus.

We file annual, quarterly and current reports and other information with the SEC under the Exchange Act. Our SEC filings are available to the public over the Internet at the SEC's website at <http://www.sec.gov>. You may also read and copy any document we file at the SEC's public reference room located at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms and their copy charges. You may also request a copy of those filings, excluding exhibits, from us at no cost. These requests should be addressed to us at: John C. Francis, Vice President of Corporate Development and Investor Relations, Blue Earth, Inc., 2298 Horizon Ridge Parkway, Suite 205, Henderson, NV 89052.

**Blue Earth, Inc.**

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**BLUE EARTH, INC. AND SUBSIDIARIES**

## Consolidated Balance Sheets

	<u>ASSETS</u>	June 30, 2012 (unaudited)	December 31, 2011
<b>CURRENT ASSETS</b>			
Cash		\$ 138,606	\$ 527,108
Accounts receivable, net		1,136,520	945,815
Inventory, net		357,860	473,451
Prepaid expenses		497,925	564,427
Total Current Assets		2,130,911	2,510,801
PROPERTY AND EQUIPMENT, net		786,132	850,751
<b>OTHER ASSETS</b>			
Deposits		17,930	17,930
Contracts and franchise, net		9,663,959	10,846,590
Total Other Assets		9,681,889	10,864,520
<b>TOTAL ASSETS</b>		<b>\$ 12,598,932</b>	<b>\$ 14,226,072</b>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>			
<b>CURRENT LIABILITIES</b>			
Accounts payable and accrued expenses		\$ 2,099,414	\$ 1,840,909
Current portion of notes payable		533,701	533,701
Related party payables		438,041	384,369
Billings in excess of revenues		572,323	645,424
Taxes payable		448,721	230,295
Payroll payable		132,675	276,018
Preferred dividends payable		211,250	54,155
Warrant derivative liability		1,643,909	2,037,325
Total Current Liabilities		6,080,034	6,002,196
<b>LONG TERM LIABILITIES</b>			
Long term portion of notes payable		740,196	979,338
Total Liabilities		6,820,230	6,981,534
Commitments and contingencies			
<b>STOCKHOLDERS' EQUITY</b>			
Preferred stock; 25,000,000 shares authorized at \$0.001 par value, 324,850 and 200,000 shares issued and outstanding, respectively		325	200
Common stock; 100,000,000 shares authorized at \$0.001 par value, 18,625,802 and 18,703,182 shares issued and outstanding, respectively		18,626	18,703
Additional paid-in capital		33,955,229	33,771,622
Stock subscription receivable		-	(2,632,192)
Accumulated deficit		(28,195,478)	(23,913,795)
Total Stockholders' Equity		5,778,702	7,244,538
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>		<b>\$ 12,598,932</b>	<b>\$ 14,226,072</b>

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

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**BLUE EARTH, INC. AND SUBSIDIARIES**Consolidated Statements of Operations  
(unaudited)

	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
REVENUES	\$ 1,693,236	\$ 1,136,614	\$ 3,653,976	\$ 2,043,636
COST OF SALES	1,086,884	357,561	2,392,141	752,303
GROSS PROFIT	606,352	779,053	1,261,835	1,291,333
OPERATING EXPENSES				
Depreciation and amortization	616,761	141,713	1,247,250	275,749
General and administrative	2,337,817	1,344,667	4,383,711	2,630,254
Total Operating Expenses	2,954,578	1,486,380	5,630,961	2,906,003
LOSS FROM OPERATIONS	(2,348,226)	(707,327)	(4,369,126)	(1,614,670)
OTHER INCOME (EXPENSE)				
Change in fair value of warrant liability	543,409	107,898	369,416	64,199
Interest income	-	1	-	956
Interest expense	(36,738)	-	(43,846)	-
Liquidated damages expense	-	-	-	-
TOTAL OTHER INCOME (EXPENSE)	506,671	107,899	325,570	65,155
LOSS BEFORE INCOME TAXES	(1,841,555)	(599,428)	(4,043,556)	(1,549,515)
INCOME TAX EXPENSE	-	-	-	-
NET LOSS	\$ (1,841,555)	\$ (599,428)	\$ (4,043,556)	\$ (1,549,515)
PREFERRED DIVIDENDS	(129,826)	-	(238,127)	-
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$ (1,971,381)	\$ (599,428)	\$ (4,281,683)	\$ (1,549,515)
BASIC AND DILUTED LOSS PER SHARE	\$ (0.10)	\$ (0.04)	\$ (0.22)	\$ (0.11)
WEIGHTED AVERAGE NUMBER OF COMMON				
	18,399,405	13,575,389	18,523,071	13,504,978

SHARES OUTSTANDING  
BASIC AND DILUTED

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

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**BLUE EARTH, INC. AND SUBSIDIARIES**  
Consolidated Statements of Cash Flows  
(unaudited)

	For the Six Months Ended June 30,	
	2012	2011
<b>OPERATING ACTIVITIES</b>		
Net loss from continuing operations	\$ (4,281,683)	\$ (1,549,515)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock options and stock warrants issued for services	541,986	342,179
Warrant derivative liability	(393,416)	(64,199)
Stock issued for services	308,686	521,784
Amortization of beneficial conversion feature	4,725	-
Depreciation and amortization	1,247,250	275,749
Changes in operating assets and liabilities:		
Accounts receivable	(190,705)	(504,398)
Inventory	115,591	(235,826)
Prepaid expenses and deposits	66,502	(751,144)
Accrued dividends payable	164,294	-
Accounts payable and accrued expenses	282,487	242,163
Net Cash Used in Continuing Operating Activities	(2,134,283)	(1,723,207)
<b>INVESTING ACTIVITIES</b>		
Acquisition of subsidiaries	-	(150,000)
Purchase of property and equipment	-	(81,927)
Net Cash Used in Investing Activities	-	(231,927)
<b>FINANCING ACTIVITIES</b>		
Cash received in purchase of subsidiary	-	404,333
Proceeds from preferred stock	1,228,500	-
Proceeds from notes payable	500,000	-
Proceeds from related party loans	55,000	-
Repayment of notes payable	(36,391)	(94,006)
Repayment of notes payable-related party	(1,328)	-
Net Cash Provided by Financing Activities	1,745,781	310,327
Effect of exchange rate changes on cash	-	-
<b>NET INCREASE (DECREASE) IN CASH</b>	(388,502)	(1,644,807)
<b>CASH AT BEGINNING OF PERIOD</b>	527,108	3,900,096
<b>CASH AT END OF PERIOD</b>	\$ 138,606	\$ 2,255,289
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
<b>CASH PAID FOR:</b>		
Interest	\$ 17,734	\$ -
Income taxes	-	-
<b>NON CASH FINANCING ACTIVITIES:</b>		
Common stock issued for acquisition of subsidiary	\$ -	\$ 2,430,009
Common stock issued for license	-	177,000

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Common stock issued for debt	677,476	-
Common stock issued for preferred stock and dividends payable	7,199	-

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

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**BLUE EARTH, INC. AND SUBSIDIARIES**

Notes to Condensed Consolidated

Financial Statements

(Unaudited)

**NOTE 1 - CONDENSED FINANCIAL STATEMENTS**

The accompanying financial statements have been prepared by the Company without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations, and cash flows at June 30, 2012 and 2011, and for all periods presented herein, have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. The results of operations for the periods ended June 30, 2012 and 2011 are not necessarily indicative of the operating results for the full year.

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES**

Inventory

Inventory is recorded at the lower of cost or market (net realizable value) using the average cost method. The inventory on hand as of June 30, 2012 consists of motors, controllers, miscellaneous refrigeration parts and raw gasket material at costs of \$382,860. An allowance for obsolete inventory has been recorded for \$25,000, resulting in net inventory of \$357,860. The Company does not have any work in progress.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

### Going Concern

The Company's financial statements are prepared using generally accepted accounting principles in the United States of America applicable to a going concern which contemplates the realization of assets and liquidation of liabilities in the normal course of business. The Company has not yet established an ongoing source of revenues sufficient to cover its operating costs and allow it to continue as a going concern. The ability of the Company to continue as a going concern is dependent on the Company obtaining adequate capital to fund operating losses until it becomes profitable. If the Company is unable to obtain adequate capital, it could be forced to cease operations.

In order to continue as a going concern, the Company will need, among other things, additional capital resources. Management's plan is to obtain such resources for the Company by obtaining capital from management and significant shareholders sufficient to meet its minimal operating expenses and seeking equity and/or debt financing. However management cannot provide any assurances that the Company will be successful in accomplishing any of its plans.

The ability of the Company to continue as a going concern is dependent upon its ability to successfully accomplish the plans described in the preceding paragraph and eventually secure other sources of financing and attain profitable operations. The accompanying financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

### Recent Accounting Pronouncements

The Company has evaluated recent accounting pronouncements and their adoption has not had or is not expected to have a material impact on the Company's financial position, or statements.

## **NOTE 3 - SIGNIFICANT EVENTS**

### Issuances of Common Stock

On February 12, 2012 the Company issued 7,500 shares of its common stock to a consultant for services valued at \$1.22 per share. On February 23, 2012 the Company issued 11,111 shares of common stock for the cancellation of 20,000 previously issued options. On March 17, 2012 the Company issued 9,125 shares to an executive officer for services valued at \$1.37 per share. On March 17, 2012 the Company issued 6,000 shares upon the exercise of warrants per the terms of the employment agreement. On March 24, 2012 the



### NOTE 3 - SIGNIFICANT EVENTS (CONTINUED)

sellers of Xnergy, Inc. returned for cancellation 877,364 shares of common stock for the cancellation of the \$2,632,192 stock subscription receivable. On April 16, 2012, the Company issued 65,217 shares of its common in exchange for 6,000 shares of its series A preferred stock and accrued dividends of \$7,195. The Company also issued 29,678 shares of its common stock for services valued at \$41,135. On April 25, 2012, the Company issued 509,533 shares of its common stock as partial settlement of a note payable in the amount of \$677,475. On May 4, 2012 the Company received and cancelled 84,180 shares of its common stock upon the cashless exercise of warrants whereby it simultaneously issued 100,000 shares of its common stock. On May 7, 2012 the Company issued 90,000 shares of its common stock for services valued at \$117,900. On May 16, 2012 the Company issued 40,000 shares of its common stock for services valued at \$48,000. On May 18, 2012 the Company issued 16,000 shares upon the exercise of warrants per the terms of the employment agreement.

#### Issuance of Preferred Stock

During the six months ended June 30, 2012 the Company issued 97,850 shares of its Series A preferred stock at \$10 per share for proceeds of \$978,500. Each share of Series A preferred stock is convertible into 10 shares of common stock. Each share not previously converted shall be automatically converted by the Company at \$1.00 per share upon the earlier of the fourth anniversary of the date of issuance or upon the Company's common stock trading at least \$2.25 per share for 60 consecutive days. The Series A preferred stock also provides for an 8% dividend if paid in cash or a 12% dividend if paid in shares of common stock. The Holder of the Series A preferred stock received common stock purchase warrants to purchase one share for every two shares of common stock issuable upon conversion of Series A Preferred Stock.

During the six months ended June 30, 2012 the Company issued 33,000 shares of its Series B preferred stock at \$10 per share for cash proceeds of \$253,000 and \$80,000 of consulting services. Each share of Series B preferred stock is convertible into 10 shares of common stock. Each share not previously converted shall be automatically converted by the Company at \$1.00 per share upon the earlier of the fourth anniversary of the date of issuance or upon the Company's common stock trading at least \$2.20 per share for 60 consecutive days. The Series B preferred stock also provides for an 8% dividend if paid in cash or a 12% dividend if paid in shares of common stock. The Holder of the Series B preferred stock received common stock purchase warrants to purchase one share for every two shares of common stock issuable upon conversion of Series A Preferred Stock.

#### Notes Payable

During the six months ended June 30, 2012 the Company received \$400,000 in proceeds from demand notes payable. The demand notes accrue interest at 12% per annum and are unsecured. The Company also received \$100,000 of proceeds from a note payable. The note payable accrues interest at 10% per annum, is unsecured and due by April 30, 2013.

Related Party Notes Payable

During the six months ended June 30, 2012 the Company received \$55,000 in proceeds from a demand note payable from a director of the Company. The demand note payable accrues interest at 12% per annum and is unsecured.

**NOTE 4 - STOCK PURCHASE WARRANTS AND OPTIONS**

During March 2012, warrants to purchase 900,000 shares of common stock at \$1.16 per share were issued to the management of the Company's subsidiary, Xenergy, Inc. for their services as an amendment to the performance criteria in employment agreements. The 100,000 warrants vested based upon certain performance criteria. The performance criteria for the remaining 800,000 warrants have not been met as of June 30, 2012. The warrants were valued using the Black-Scholes model with a dividend rate of 0%, volatility of 171.65%, a risk free rate of 3.64% and a term of 5 years. During April and May 2012, warrants to purchase 1,385,000 shares of common stock at \$0.10 to \$1.39 per share were issued to the various Company consultants subsidiary for their services 715,000 warrants vested based upon certain performance criteria. The performance criteria for the remaining 675,000 warrants have not been met as of June 30, 2012. The warrants were valued using the Black-Scholes model with a dividend rate of 0%, volatility of 163.99%, a risk free rate of 3.64% and a term of 1.5 to 5.5 years. The Company has recognized \$522,365 of expense in connection with the warrants during the six months ended June 30, 2012. A summary of the Company's warrant activity during the periods ended June 30, 2012 and December 31, 2011 is presented below:

**BLUE EARTH, INC. AND SUBSIDIARIES**

## Notes to Condensed Consolidated

## Financial Statements

(Unaudited)

**NOTE 4 - STOCK PURCHASE WARRANTS AND OPTIONS (CONTINUED)**

	No. of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Balance Outstanding, December 31, 2010	298,500	\$ 1.00	9.8	
Granted	97,791	1.68	5	
Granted	450,000	1.72	10	
Forfeited	(238,500)	0.94	9.8	
Expired	--	--	--	
Balance Outstanding, December 31, 2011	607,791	1.63	9.8	\$1,018,089
Granted	52,720			
Forfeited	(8,889)	0.90	--	
Exercised	(11,111)	0.90	--	
Balance Outstanding, June 30, 2012	640,511	\$ 1.60	9.5	\$ 1,062,197
Exercisable, June 30, 2012	340,511	\$ 1.60	9.5	\$ 546,197

A summary of the Company's warrant activity during the periods ended June 30, 2012 and December 31, 2011 is presented below:

	No. of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Balance Outstanding, December 31, 2010	11,870,116	\$ 2.31	2.78	\$ 27,457,223
Granted	2,660,000	2.53	5.00	
Exercised	(18,000)	1.00	--	
Granted	1,000,000	3.00	10.00	
Forfeited	(50,000)	1.25	--	



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Balance Outstanding, December 31, 2011	15,531,116		2.53	2.78	\$ 33,801,473
Granted	2,285,000		1.24	5.00	
Exercised	(100,000)		--	--	
Forfeited	--		--	--	
Balance Outstanding June 30, 2012	17,716,116	\$	2.17	3.53	\$ 36,498,268
Exercisable, June 30 , 2012	16,090,116	\$	2.06	3.53	\$ 34,935,056

**NOTE 5 - SUBSEQUENT EVENTS**

On July 10, 2012 the Company received \$400,000 in proceeds from its notes payable. The Company received an additional \$200,000 of proceeds from its notes payable on August 7, 2012 for which the Company issued 50,00 warrants with a \$0.10 exercise price.

On July 19, 2012 the Company issued 12,000 shares upon the exercise of warrants per the terms of the employment agreement. The Company also issued 5,000 shares of its common stock to an executive officer under the terms of his employment contract.

**NOTE 5 - SUBSEQUENT EVENTS (CONTINUED)**

On July 30, 2012, 19,000 shares of Preferred Series A stock and \$22,800 of accrued dividends were converted into 212,800 shares of common stock. Also the seller of the SwitchGenie technology agreed to return for cancellation of 75,000 shares of the Company's common stock and to the cancellation of 160,000 stock purchase warrants.

On August 1, 2012 the Company issued 13,000 shares of its common stock upon the exercise of warrants for cash of \$12,000 and accrued compensation of \$1,000.

On August 2, 2012 (a) \$500,000 of notes payable and accrued interest of \$11,441 were converted into 51,144 shares of Series B preferred stock and warrants to purchase 225,720 shares of common stock and (b) \$200,000 of notes payable and accrued interest of \$1,580 were converted into 20,158 shares of Series B Preferred stock and warrants to purchase 100,790 shares of common stock. The Company also issued 15,457 shares of its common stock for \$19,354 of accrued compensation.

On August 3, 2012 the Company issued 17,000 shares of its common stock upon the exercise of warrants for \$17,000 of cash.

On August 9, 2012 the Company issued 19,000 shares of its Series B Preferred stock and warrants to purchase 114,000 shares for cash proceeds of \$190,000. The Company also issued 3,500 shares of its Series B preferred stock and warrants to purchase 17,500 shares for \$35,000 of legal services. The Company also issued 366,529 common shares at \$1.328 per share to acquire certain solar projects in Hawaii and 29,412 common shares at \$1.02 in satisfaction of an accrued liability.

In accordance with ASC 855-10, the Company's management has reviewed all material events there are no additional material subsequent events to report.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and  
Stockholders of Blue Earth Inc.

We have audited the accompanying consolidated balance sheet of Blue Earth Inc. and Subsidiaries (the Company) as of December 31, 2011 and 2010 and the related consolidated statements of operations, stockholders' deficit and cash flows for each of the years in the two year period ended December 31, 2011. The financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Blue Earth Inc. and Subsidiaries as of December 31, 2011 and 2010 and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America.

Lake & Associates, CPAs LLC

Schaumburg, Illinois

April 10, 2012

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**BLUE EARTH, INC. AND SUBSIDIARIES**

## Consolidated Balance Sheets

<u>ASSETS</u>	December 31, 2011	December 31, 2010
<b>CURRENT ASSETS</b>		
Cash	\$ 527,108	\$ 3,900,096
Accounts receivable, net	945,815	-
Inventory, net	473,451	-
Prepaid expenses	564,427	38,039
Total Current Assets	2,510,801	3,938,135
<b>PROPERTY AND EQUIPMENT, net</b>	850,751	10,932
<b>OTHER ASSETS</b>		
Deposits	17,930	3,000
Contracts and franchise, net	10,846,590	-
Total Other Assets	10,864,520	3,000
<b>TOTAL ASSETS</b>	<b>\$ 14,226,072</b>	<b>\$ 3,952,067</b>

LIABILITIES AND STOCKHOLDERS' EQUITY**CURRENT LIABILITIES**

Accounts payable and accrued expenses	\$ 1,840,909	\$ 37,339
Current portion of notes payable	533,701	-
Related party payables	384,369	-
Billings in excess of revenues	645,424	-
Taxes payable	230,295	-
Payroll payable	276,018	-
Preferred dividends payable	54,155	-
Warrant derivative liability	2,037,325	1,288,159
Total Current Liabilities	6,002,196	1,325,498

**LONG TERM LIABILITIES**

Long term portion of notes payable	979,338	-
Total Liabilities	6,981,534	1,325,498

Commitments and contingencies

**STOCKHOLDERS' EQUITY**

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Preferred stock; 25,000,000 shares authorized at \$0.001 par value, 200,000 and zero shares issued and outstanding, respectively	200	-
Common stock; 100,000,000 shares authorized at \$0.001 par value, 18,703,182 and 11,855,232 shares issued and outstanding, respectively	18,703	11,855
Additional paid-in capital	33,771,622	12,420,166
Stock subscription receivable	(2,632,192)	-
Accumulated deficit	(23,913,795)	(9,805,452)
 Total Stockholders' Equity	 7,244,538	 2,626,569
 TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	 \$ 14,226,072	 \$ 3,952,067

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

**BLUE EARTH, INC. AND SUBSIDIARIES**

## Consolidated Statements of Operations

	For the Year Ended December 31,	
	2011	2010
REVENUES	\$ 5,315,664	\$ -
COST OF SALES	2,838,277	-
GROSS PROFIT	2,477,387	-
OPERATING EXPENSES		
Depreciation and amortization	1,209,769	-
General and administrative	14,434,071	2,202,320
Total Operating Expenses	15,643,840	2,202,320
LOSS FROM OPERATIONS	(13,166,453)	(2,202,320)
OTHER INCOME (EXPENSE)		
Change in fair value of warrant liability	(749,166)	(483,441)
Interest income	957	15,311
Interest expense	(49,324)	-
Liquidated damages expense	(55,000)	-
TOTAL OTHER INCOME (EXPENSE)	(852,533)	(468,130)
LOSS BEFORE INCOME TAXES	(14,018,986)	(2,670,450)
INCOME TAX EXPENSE	-	(12,781)
LOSS FROM CONTINUING OPERATIONS	(14,018,986)	(2,683,231)
GAIN ON DISPOSAL OF DISCONTINUED OPERATIONS, net of income taxes of \$0	-	66,292
LOSS FROM DISCONTINUED OPERATIONS, net of income taxes of \$0	-	(970,614)
NET LOSS	\$ (14,018,986)	\$ (3,587,553)
PREFERRED DIVIDENDS	(89,357)	-
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$ (14,108,343)	\$ (3,587,553)
BASIC AND DILUTED LOSS PER SHARE		
Continuing Operations	\$ (0.93)	\$ (0.18)
Discontinued Operations	-	(0.06)



Net Loss	\$	(0.93)	\$	(0.24)
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WEIGHTED AVERAGE NUMBER OF  
COMMON  
SHARES OUTSTANDING BASIC AND  
DILUTED

15,109,401

15,201,303

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

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**BLUE EARTH, INC. AND SUBSIDIARIES**  
Consolidated Statements of Stockholders' Equity

	Preferred Stock		Common Stock		Additional Stock		Total	
	Shares	Amount	Shares	Amount	Paid-In Capital	Subscription Receivable	Accumulated Deficit	Stockholders' Equity
Balance, December 31, 2009	-	\$ -	17,668,500	\$ 17,669	\$ 10,152,118	\$ -	\$(6,217,899)	3,951,888
Common shares issued for consulting services	-	-	83,000	83	41,417	-	-	41,500
Liability paid on behalf of the Company by a shareholder	-	-	-	-	8,467	-	-	8,467
Common shares cancelled in sale of subsidiary	-	-	(6,331,050)	(6,331)	6,331	-	-	-