

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2009

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File No.000-31355

BEACON ENTERPRISE SOLUTIONS GROUP, INC.

(Name of registrant in its charter)

Nevada

81-0438093

(State or other jurisdiction of
incorporation or organization)

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

1961 Bishop Lane, Louisville, KY 40218

(Address of principal executive offices)

502-657-3500

(Issuer's telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

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

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☒

(Do not check if a smaller reporting company)

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

As of May 13, 2009, Beacon Enterprise Solutions Group, Inc. had a total of 17,026,705 shares of common stock issued and outstanding.

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ITEM 1. FINANCIAL STATEMENTS

Beacon Enterprise Solutions Group, Inc. and Subsidiaries
Condensed Consolidated Balance Sheet

	March 31, 2009	September 30, 2008
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 37,532	\$ 127,373
Accounts receivable, net	1,954,272	1,505,162
Inventory, net	566,930	597,794
Prepaid expenses and other current assets	483,125	44,745
Total current assets	3,041,859	2,275,074
Property and equipment, net	325,551	310,703
Goodwill	2,791,648	2,791,648
Other intangible assets, net	3,572,220	3,802,717
Inventory, less current portion	160,610	160,610
Security deposits	6,050	15,639
Total assets	\$ 9,897,938	\$ 9,356,391
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short term credit obligations	\$ 153,600	\$ 200,000
Convertible Note Payable (net of \$45,997 and \$0 discount)	454,003	
Current portion of long-term debt	520,627	495,595
Current portion of capital lease obligations	3,659	11,928
Accounts payable	1,611,097	1,225,509
Accrued expenses	1,145,127	1,105,078
Accrued dividends	471,506	220,354
Customer deposits	165,378	95,767
Deferred tax liability	45,472	45,472
Total current liabilities	4,570,469	3,399,703
Long-term debt, less current portion	994,051	1,316,477
Bridge notes (net of \$80,981 and \$128,840 of discounts, respectively)	619,019	571,160
Total liabilities	6,183,539	5,287,340
Stockholders' equity		
Preferred Stock: \$0.01 par value, 5,000,000 shares authorized, 5,200 and 5,156 shares outstanding, respectively, in the following classes:		
Series A convertible preferred stock, \$1,000 stated value, 4,500 shares authorized, 3,656 and 4,000 shares issued and outstanding, respectively, (liquidation preference \$5,063,880 and \$5,243,630, respectively)	3,656,200	4,000,000
Series A-1 convertible preferred stock, \$1,000 stated value, 1,000 shares authorized, 800 and 800 shares issued and outstanding, respectively, (liquidation preference \$1,081,813 and \$1,031,813, respectively)	800,000	800,000
Series B convertible preferred stock, \$1,000 stated value, 4,000 shares authorized, 700 and 400 shares issued and outstanding, respectively, (liquidation preference \$888,940 and \$500,000, respectively)	700,000	400,000
Common stock, \$0.001 par value 70,000,000 shares authorized, 15,521,371 and 12,093,021 shares issued and issued and outstanding, respectively	15,521	12,093
Additional paid in capital	10,667,582	8,027,602
Accumulated deficit	(12,124,904)	(9,170,644)
Total stockholders' equity	3,714,399	4,069,051
Total liabilities and stockholders' equity	\$ 9,897,938	\$ 9,356,391

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

Beacon Enterprise Solutions Group, Inc. and Subsidiaries
Condensed Consolidated Statement of Operations
(Unaudited)

	For the three months ended March 31, 2009	For the three months ended March 31, 2008	For the six months ended March 31, 2009	For the six months ended March 31, 2008
Net sales	\$ 2,277,877	\$ 1,571,742	\$ 4,079,085	\$ 1,708,830
Cost of goods sold	767,045	399,009	1,430,920	422,005
Cost of services	625,179	439,916	1,277,924	451,752
Gross profit	885,653	732,817	1,370,241	835,073
Operating expense				
Salaries and benefits	1,018,946	1,126,350	1,922,587	1,565,234
Selling, general and administrative	698,255	593,354	1,222,080	1,057,760
Depreciation Expense	34,428	20,308	71,439	21,178
Amortization of intangible assets	115,249	160,101	230,497	181,155
Total operating expense	1,866,878	1,900,113	3,446,603	2,825,327
Loss from operations	(981,225)	(1,167,296)	(2,076,362)	(1,990,254)
Other expenses				
Interest expense	(226,632)	(115,158)	(439,969)	(143,153)
Interest income	195	2,689	362	2,689
Total other expenses	(226,437)	(112,469)	(439,607)	(140,464)
Net loss	(1,207,662)	(1,279,765)	(2,515,969)	(2,130,718)
Preferred Stock:				
Contractual dividends	(126,000)	—	(251,152)	(7,335)
Deemed dividends related to beneficial conversion feature	(106,792)	(2,991,719)	(187,139)	(3,895,597)
Net loss available to common stockholders	\$ (1,440,454)	\$ (4,271,484)	\$ (2,954,260)	\$ (6,033,650)
Net loss per share to common stockholders - basic and diluted	\$ (0.10)	\$ (0.41)	\$ (0.22)	\$ (0.74)
Weighted average shares outstanding basic and diluted	14,049,769	10,468,021	13,294,909	8,159,662

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

Beacon Enterprise Solutions Group, Inc. and Subsidiaries
Condensed Consolidated Statement of Stockholders' Equity
(Unaudited)

	Series A Convertible Preferred Stock		Series A-1 Convertible Preferred Stock		Series B Convertible Preferred Stock		Common Stock				
	Shares	\$1,000 Stated Value	Shares	\$1,000 Stated Value	Shares	\$1,000 Stated Value	Shares	\$0.001Par Value	Additional Paid-In Capital	Accumulated Deficit	Total
Balance at September 30, 2008	4,000	\$ 4,000,000	800	\$ 800,000	400	\$ 400,000	12,093,021	\$ 12,093	\$ 8,027,602	\$ (9,170,644)	\$ 4,069,051
Vested portion of share based payments to employee for services					300	300,000			151,090		151,090
Conversion of debt to Preferred shares											300,000
Conversion of Preferred shares to common	(344)	(343,800)					458,397	458	343,342		—
Common Stock issued in private placement							2,601,024	2,601	2,079,677		2,082,278
Private placement offering costs									(493,373)		(493,373)
Shares committed to Anti-dilution adjustment							148,929	149	(149)		—
Common Stock issued for investor relations agreements							220,000	220	96,580		96,800
Beneficial conversion feature - deemed preferred stock dividend									175,274	(175,274)	—
Discount on Convertible Notes Payable									74,334		74,334
Vested contingent bridge warrants									56,840		56,840
Warrants issued for equity financing agreement									144,500		144,500
Series A Preferred Stock contractual dividends										(200,000)	(200,000)
Series A-1 Preferred Stock contractual dividends										(40,000)	(40,000)
Series B Preferred Stock contractual dividends										(11,152)	(11,152)
Beneficial conversion feature - deemed Investor Warrant dividend									11,865	(11,865)	—
Net loss										(2,515,969)	(2,515,969)
Balance at March 31, 2009 (unaudited)	3,656	\$ 3,656,200	800	\$ 800,000	700	\$ 700,000	15,521,371	\$ 15,521	\$10,667,582	\$ (12,124,904)	\$ 3,714,399

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

Beacon Enterprise Solutions Group, Inc. and Subsidiaries
Consolidated Statement of Cash Flows
(unaudited)

	For the six Months Ended March 31, 2009	For the six Months Ended March 31, 2008
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Net loss	\$ (2,515,969)	\$ (2,130,718)
Adjustments to reconcile net loss to net cash used in operating activities:		
Change in reserve for obsolete inventory	33,629	
Change in reserve for doubtful accounts	44,912	
Depreciation and Amortization	301,936	202,333
Non-cash interest	302,546	43,741
Share based payments	247,890	462,738
Changes in operating assets and liabilities:		
Accounts receivable	(494,021)	23,821
Inventory	(2,775)	(167,274)
Prepaid expenses and other current assets	(388,380)	(49,674)
Accounts payable	385,588	(122,369)
Customer deposits	69,611	(122,013)
Other assets	9,589	111,087
Accrued expenses	40,049	434,911
NET CASH USED IN OPERATING ACTIVITIES	(1,965,395)	(1,313,417)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Capital expenditures	(86,287)	(46,762)
Acquisition of businesses, net of acquired cash		(2,138,611)
NET CASH USED IN INVESTING ACTIVITIES	(86,287)	(2,185,373)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Proceeds from issuances of bridge notes		422,000
Proceeds from sale of preferred stock, net of offering costs	300,000	3,876,460
Proceeds from sale of common stock, net of offering costs	1,588,905	—
Proceeds from issuance of convertible notes	500,000	—
Payment of referral finance costs	(75,000)	—
Net proceeds payments under lines of credit	(46,400)	(250,000)
Net proceeds of note payable	—	600,000
Payments of notes payable	(297,395)	(495,244)
Payments of capital lease obligations	(8,269)	(4,949)
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,961,841	4,148,267
NET INCREASE IN CASH AND CASH EQUIVALENTS	(89,841)	649,477
<u>CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD</u>	127,373	62,211
<u>CASH AND CASH EQUIVALENTS - END OF PERIOD</u>	\$ 37,532	\$ 711,688
<u>Supplemental disclosures</u>		
Cash paid for:		
Interest	\$ 88,697	\$ 50,419
 Income taxes	 —	 \$ —
 Acquisition of businesses		
Accounts receivable		\$ 689,001
Inventory		639,410
Prepaid expenses and other current assets		55,283
Property and equipment		226,743
Goodwill		2,762,194
Customer relationships		3,704,074
Non-compete agreements		500,000
Tradenames		100,000
Security deposits		27,591
Line of credit		(250,000)
Accounts payable and accrued expenses		(832,132)

Customer deposits		(304,190)
Long-term debt assumed		(354,199)
Capital lease obligations		(25,490)
Less: common stock issued as purchase consideration		(2,741,250)
Less: acquisition notes issued to sellers of acquired businesses		(1,973,500)
Less: accrued acquisition costs		(84,924)
		<hr/>
Cash used in acquisition of businesses (net of \$148,283 of cash acquired)	\$	2,138,611
		<hr/>
Bridge note warrants	\$	72,000
		<hr/>
Exchange of Note Payable to director for Series B Preferred stock	\$	300,000
		<hr/>

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

BEACON ENTERPRISE SOLUTIONS GROUP, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The condensed consolidated financial statements presented are those of Beacon Enterprise Solutions Group, Inc. (“Beacon” or the “Company”), which was originally formed in the State of Indiana on June 6, 2007 and combined with Suncrest Global Energy Corp. (“Suncrest”), a Nevada corporation, on December 20, 2007 in a share exchange transaction accounted for as a reverse merger and recapitalization of Beacon.

The Company is a unified, single source information technology and telecommunications enterprise that provides professional services and sales of information technology and telecommunications products to commercial enterprises, state and local government agencies, and educational institutions.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements as of March 31, 2009 and 2008, and for the three and six month periods then ended have been prepared in accordance with the accounting principles generally accepted in the United States of America for interim financial information and pursuant to the instructions to Form 10-Q and Article 8 of Regulation S-X of the Securities and Exchange Commission (“SEC”) and on the same basis as the annual audited consolidated financial statements. The unaudited condensed consolidated balance sheet as of March 31, 2009, condensed consolidated statements of operations for the three and six months ended March 31, 2009 and 2008, and the condensed consolidated statements of stockholders’ equity and cash flows for the six months ended March 31, 2009 are unaudited, but include all adjustments, consisting only of normal recurring adjustments, which Beacon considers necessary for a fair presentation of the financial position, operating results and cash flows for the periods presented. The results for the three and six months ended March 31, 2009 are not necessarily indicative of results to be expected for the year ending September 30, 2009 or for any future interim period. The accompanying condensed consolidated financial statements should be read in conjunction with Beacon’s consolidated financial statements and notes thereto included in Beacon’s Annual Report on Form 10-K, which was filed with the SEC on January 13, 2009.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of Beacon Enterprise Solutions Group, Inc., a Nevada corporation (formerly Suncrest) and its wholly-owned subsidiaries the original Beacon formed in Indiana in June 2007 and BH Acquisition Corp. All significant inter-company accounts and transactions have been eliminated in consolidation.

Revenue and Cost Recognition

The Company applies the revenue recognition principles set forth under the Securities and Exchange Commission’s Staff Accounting Bulletin (“SAB”) 104 with respect to all of its revenue. Accordingly, the Company

recognizes revenue when (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred, (iii) the fee is fixed or determinable, and (iv) collectability is probable.

Business Telephone System and Computer Hardware Product Revenues - The Company requires its hardware product sales to be supported by a written contract or other evidence of a sale transaction that clearly indicates the selling price to the customer, shipping terms, payment terms (generally 30 days) and refund policy, if any. Since the Company's hardware sales are supported by a contract or other document that clearly indicates the terms of the transaction, and the selling price is fixed at the time the sale is consummated, the Company records revenue on these sales at the time at which it receives a confirmation that the goods were tendered at their destination when shipped "FOB destination," or upon confirmation that shipment has occurred when shipped "FOB shipping point."

For product sales, the Company applies the factors discussed in Emerging Issues Task Force ("EITF") issue 99-19 "Reporting Revenue Gross as a Principal vs. Net as an Agent," ("99-19"), in determining whether to recognize product revenue on a gross or net basis. In a substantial majority of these transactions, the Company acts as principal because the Company: (i) has latitude in establishing selling prices; (ii) takes title to the products; and (iii) has the risks and rewards of ownership, including the risk of loss for collection, delivery or returns. For these transactions, the Company recognizes revenue based on the gross amounts billed to customers.

Professional Services Revenue - The Company generally bills its customers for professional telecommunications and data consulting services based on hours of time spent on any given assignment at its hourly billing rates. As it relates to delivery of these services, the Company recognizes revenue under these arrangements as the work is completed and the customer has indicated their acceptance of services by approving a work order milestone or completion order. For certain engagements, the Company enters into fixed bid contracts, and recognizes revenue as phases of the project are completed and accepted by the client. We generated approximately \$1,068,000 and \$1,034,000 of professional services revenue during the three months ended March 31, 2009 and 2008, respectively. We generated approximately \$1,735,000 and \$1,034,000 of professional services revenue during the six months ended March 31, 2009 and 2008, respectively.

Time and Materials Contracts - Time and materials contracts, which generally include product sales and installation services, are billed when services are completed based on fixed labor rates plus materials or based on the terms and conditions of the contract. A substantial majority of the Company's services in this category are completed in short periods of time. The Company may, on occasion, enter into long-term contracts in which it would be appropriate to recognize revenue using long-term contract accounting such as the percentage of completion method. We generated revenue of approximately \$1,176,000 and \$513,000 from short-term time and materials contracts for the three months ended March 31, 2009 and 2008, respectively. We generated revenue of approximately \$2,277,000 and \$650,000 from short-term time and materials contracts for the six months ended March 31, 2009 and 2008, respectively.

Maintenance Contracts - The Company, as a representative of various original equipment manufacturers, sells extended maintenance contracts on equipment it sells and also acts as an authorized servicing agent with respect to these contracts. These contracts, which are sold as separate agreements from other products and services, are individually negotiated and are generally not bundled with other products and services. For maintenance contract sales, the Company applies the factors discussed in EITF 99-19 in determining whether to recognize product revenue on a gross or net basis. Maintenance contracts are typically manufacturer maintenance contracts that are sold to the customer on a reseller basis. Based on an analysis of the factors set forth in EITF 99-19, the Company has determined that it acts as an agent in these situations, and therefore recognizes revenue on a net basis. The Company's share of revenue that it earns from originating these contracts is deferred and

recognized over the life of the contract. Material and labor is charged for any service calls under these maintenance contracts on a time and materials basis which is charged to either the customer or manufacturer. We recognized approximately \$34,000 and \$26,000 of net maintenance revenue during both the three months ended March 31, 2009 and 2008, respectively. We recognized approximately \$60,000 and \$26,000 of net maintenance revenue during both the six months ended March 31, 2009 and 2008, respectively.

Sales Tax - The Company accounts for sales taxes collected on behalf of government authorities using the net method. Pursuant to this method, sales taxes are included in the amounts receivable and a payable is recorded for the amounts due to the government agencies.

Use of Estimates

The preparation of the condensed consolidated 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 and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ materially from those estimates. These estimates and assumptions include valuing equity securities and derivative financial instruments issued as purchase consideration in business combinations and/or in financing transactions and in share based payment arrangements, accounts receivable reserves, inventory reserves, deferred taxes and related valuation allowances, allocating the purchase price to the fair values of assets acquired and liabilities assumed in business combinations (including separately identifiable intangible assets and goodwill) and estimating the fair values of long lived assets to assess whether impairment charges may be necessary. As of March 31, 2009, our reserve for bad debt was approximately \$95,000 and our reserve for obsolete inventory was approximately \$69,000. As of March 31, 2009, management believes the reserve balances are sufficient. These reserves are included in accounts receivable, net and Inventory, net in the accompanying March 31, 2009 condensed consolidated balance sheet, respectively.

Goodwill and Intangible Assets

Beacon accounts for goodwill and intangible assets in accordance with Statement of Financial Accounting Standards (SFAS) No. 142 "Goodwill and Other Intangible Assets," ("SFAS 142"). SFAS 142 requires that goodwill and other intangibles with indefinite lives should be tested for impairment annually or on an interim basis if events or circumstances indicate that the fair value of an asset has decreased below its carrying value.

Our amortizable intangible assets include customer relationships and covenants not to compete. These costs are being amortized using the straight-line method over their estimated useful lives of 15 and 2 years, respectively. In accordance with SFAS 144 "Accounting for the Impairment or Disposal of Long-Lived Assets," we review the carrying value of intangibles and other long-lived assets for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Management considered the Company's loss for the three months ended March 31, 2009 as part of an evaluation of the carrying amounts of the Company's intangible assets as of March 31, 2009 and has determined that no impairment charges are necessary at this time.

Share-Based Payments

We account for stock-based compensation using Statement of Financial Accounting Standards ("SFAS") No. 123(R), "Accounting for Stock-Based Compensation" ("SFAS 123(R)"). SFAS 123(R) requires measurement of compensation cost for all share based payment awards based on their fair values on the date of grant and recognition of compensation over the service period for awards expected to vest. The fair value of stock options is

determined using the Black-Scholes valuation model. The recognized expense is net of expected forfeitures and restatement of prior periods is not required. The fair value of restricted stock is determined based on the number of shares granted and the fair value of the Company's common stock on date of grant.

Net Loss Per Share

Net loss per share is presented in accordance with SFAS No. 128 "Earnings Per Share." ("SFAS 128") Under SFAS 128, basic net loss per share is computed by dividing net loss available to common stockholders by the weighted average shares of common stock outstanding for the period and excludes any potentially dilutive securities. Diluted earnings per share reflects the potential dilution that would occur upon the exercise or conversion of all dilutive securities into common stock. The computation of loss per share for the three and six months ended March 31, 2009 and 2008 excludes potentially dilutive securities because their inclusion would be anti-dilutive.

Shares of common stock issuable upon conversion or exercise of potentially dilutive securities at March 31, 2009 are as follows:

	Stock Options and Warrants	Common Stock Equivalents	Total Common Stock Equivalents
Series A Convertible Preferred Stock	2,666,666	5,401,474	8,068,140
Series A-1 Convertible Preferred Stock	533,333	1,153,935	1,687,268
Series B Convertible Preferred Stock	350,000	792,146	1,142,146
Common Stock Offering Warrants	2,113,013		2,113,013
Placement Agent	1,881,905		1,881,905
Affiliate Warrants	600,000		600,000
Bridge Financings	1,211,000	1,166,666	2,377,666
Convertible Notes Payable	50,000		50,000
Compensatory	300,000		300,000
Equity Financing Arrangements	566,664		566,664
Employee Stock Options	400,900		400,900
	<u>10,673,481</u>	<u>8,514,221</u>	<u>19,187,702</u>

Subsequent to March 31, 2009, we issued warrants to purchase an aggregate of 705,625 shares of our common stock referred to as Common Stock Offering Warrants, warrants to purchase an aggregate of 211,690 shares of our common stock referred to as Placement Agent Warrants, warrants to purchase 66,666 shares of our common stock as compensation for an Equity Financing Arrangement and issued options to purchase 2,500,000 shares of common stock.

Recently Adopted Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a market based framework for measuring fair value and expands disclosure of fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements and accordingly, does not require any new fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The adoption of SFAS 157 did not have a material effect on the Company's consolidated financial statements.

On February 15, 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities” (“SFAS 159”). The guidance in SFAS 159 “allows” reporting entities to “choose” to measure many financial instruments and certain other items at fair value. The objective underlying the development of this literature is to improve financial reporting by providing reporting entities with the opportunity to reduce volatility in reported earnings that results from measuring related assets and liabilities differently without having to apply complex hedge accounting provisions, using the guidance in SFAS 133, as amended. The provisions of SFAS 159 are applicable to all reporting entities and are effective as of the beginning of the first fiscal year that begins subsequent to November 15, 2007. The adoption of SFAS 159 did not have a material effect on the Company’s condensed consolidated financial statements.

In June 2007, the EITF reached a consensus on EITF Issue No. 06-11, “Accounting for Income Tax Benefits on Dividends on Share-Based Payment Awards” (“EITF 06-11”). EITF 06-11 addresses share-based payment arrangements with dividend protection features that entitle employees to receive (a) dividends on equity-classified nonvested shares, (b) dividend equivalents on equity-classified nonvested share units, or (c) payments equal to the dividends paid on the underlying shares while an equity-classified share option is outstanding, when those dividends or dividend equivalents are charged to retained earnings under SFAS 123R and result in an income tax deduction for the employer. A realized income tax benefit from dividends or dividend equivalents that are charged to retained earnings are paid to employees for equity-classified nonvested shares, nonvested equity share units, and outstanding equity share options should be recognized as an increase in additional paid in capital. The amount recognized in additional paid-in capital for the realized income tax benefit from dividends on those awards should be included in the pool of excess tax benefits available to absorb potential future tax deficiencies on share-based payments for fiscal years beginning after December 15, 2007. The adoption of this pronouncement did not have a material impact on the condensed consolidated financial statements.

In December 2007, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 141R, “Business Combinations” (“SFAS 141R”), which replaces SFAS No. 141, “Business Combinations.” SFAS 141R establishes principles and requirements for determining how an enterprise recognizes and measures the fair value of certain assets and liabilities acquired in a business combination, including noncontrolling interests, contingent consideration, and certain acquired contingencies. SFAS 141R also requires acquisition-related transaction expenses and restructuring costs be expensed as incurred rather than capitalized as a component of the business combination. SFAS 141R will be applicable prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. SFAS 141R will have an impact on the accounting for any businesses acquired after the effective date of this pronouncement.

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements – An Amendment of ARB No. 51” (“SFAS 160”). SFAS 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary (previously referred to as minority interests). SFAS 160 also requires that a retained noncontrolling interest upon the deconsolidation of a subsidiary be initially measured at its fair value. Upon adoption of SFAS 160, the Company would be required to report any noncontrolling interests as a separate component of stockholders’ equity. The Company would also be required to present any net income allocable to noncontrolling interests and net income attributable to the stockholders of the Company separately in its consolidated statements of operations. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. SFAS 160 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. All other requirements of SFAS 160 shall be applied

prospectively. SFAS 160 will have an impact on the presentation and disclosure of the noncontrolling interests of any non wholly-owned businesses after the effective date of this pronouncement

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161 “Disclosure about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133” (“SFAS 161”). SFAS 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity’s financial position, financial performance and cash flows. This Statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The Company is evaluating the impact of this pronouncement on the Company’s condensed consolidated financial position, results of operations and cash flows. The adoption of this pronouncement did not have a material impact on the condensed consolidated financial statements.

In May 2008, the FASB issued SFAS No. 162, “The Hierarchy of Generally Accepted Accounting Principles.” SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. SFAS No. 162 is effective 60 days following the SEC’s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, “The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles.” The effective date for SFAS No. 162 is November 15, 2008. The adoption of SFAS No. 162 did not have a material impact on our financial position or results of operations.

Recent Accounting Pronouncements Requiring Adoption in Future Periods

In December 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. FAS 132(R)-1, “Employers’ Disclosures about Postretirement Benefit Plan Assets” (FSP 132(R)-1). FSP 132(R)-1 provides guidance on a plan sponsor’s disclosures about plan assets of defined benefit pension and postretirement plans. Required disclosures include information about categories of plan assets, fair value measurements of plan assets, and significant concentrations of risk, as well as investment policies and strategies. FSP 132(R)-1 is effective for fiscal years ending after December 15, 2009. Except for additional disclosures, we do not expect the adoption of FSP132(R)-1 to have an impact on our financial statements

In April 2009, the FASB issued FASB Staff Position No. FAS 115-2 and FAS 124-2, “Recognition and Presentation of Other-Than-Temporary Impairments” (FSP 115-2 and 124-2). FSP 115-2 and 124-2 amends the guidance on other-than-temporary impairment for debt securities and modifies the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This FSP is effective for interim and annual periods ending after June 15, 2009. We are evaluating the impact of FSP 115-2 and 124-2 on our financial statements.

In April 2009, the FASB issued FASB Staff Position No. FAS 157-4, “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly” (FSP 157-4). FSP 157-4 provides additional guidance for estimating fair value under Statement of Financial Accounting Standard No. 157, “Fair Value Measurements”, when there is an inactive market

or the market is not orderly. This FSP is effective for interim and annual periods ending after June 15, 2009. We are evaluating the impact of FSP 157-4 on our financial statements.

In April 2009, the FASB issued FASB Staff Position No. FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments" (FSP 107-1 and 28-1). This FSP requires disclosure about fair value of financial instruments in interim periods, as well as annual financial statements. FSP 107-1 and 28-1 is effective for interim periods ending after June 15, 2009. We are evaluating the impact of this FSP on our financial statements.

In February 2008, SFAS 157 was amended by FSP 157-2, "Effective Date of FASB Statement No. 157: Fair Value Measurements" ("FSP 157-2"). As such, SFAS 157 (as amended) is partially effective for measurements and disclosures of financial assets and liabilities for fiscal years beginning after November 15, 2007 and is fully effective for measurement and disclosure provisions on all applicable assets and liabilities for fiscal years beginning after November 15, 2008. We are currently evaluating the impact of FSP 157-2 on our condensed consolidated financial statements.

In December 2008, the FASB ratified EITF Issue No. 07-5, "Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock". This issue addresses the determination of whether an instrument (or an embedded feature) is indexed to an entity's own stock, which is the first part of the scope exception in paragraph 11(a) of Statement 133. This issue is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. We are currently evaluating the impact of EITF 07-5 on our condensed consolidated financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the Company's condensed consolidated financial statements upon adoption.

NOTE 2 – LIQUIDITY, FINANCIAL CONDITION AND MANAGEMENT'S PLANS

We incurred a net loss of approximately (\$2,516,000) and used approximately (\$1,965,000) of cash in our operating activities for the six months ended March 31, 2009. At March 31, 2009, our accumulated deficit amounted to approximately (\$12,125,000). We had cash of \$37,532 and a working capital deficit of approximately (\$1,529,000) at March 31, 2009.

We experienced certain conditions that compressed our gross profit margins during the three and six month periods ended March 31, 2009 principally related to competition and price pressure due to external market conditions and our efforts to expand the business.

As widely reported, the financial markets have been experiencing significant disruption in recent months, including, among other things, volatility in securities prices, diminished liquidity and credit availability and declining valuations. Among other risks we face, the current tightening of credit in financial markets may adversely affect our ability to obtain financing in the future, including, if necessary, to fund strategic acquisitions, and/or refinance our debt as it comes due.

Our financing transactions to date include:

On October 29, November 17 and November 19, 2008, Beacon and Midian Properties, LLC, entered into short term credit facilities in the amounts of \$100,000, \$120,000 and \$70,000 that the Company repaid as of March 31, 2009. On March 27, 2009, Beacon and Midian, entered into a short term credit facility in the amount of

\$53,000, the principal of which was due and payable to the holder within seven (7) days of issuance along with a 1% origination fee. The credit facility has been fully repaid.

On November 12, 2008, Beacon engaged a registered broker-dealer in a private placement of Common Stock and Warrants to raise \$3.0 million of equity financing with an option to raise an additional \$450,000 if the offering is oversubscribed. As of May 12, 2009 we have raised approximately \$3.0 million in net proceeds pursuant to this offering.

On January 7, 2009, we entered into a note payable with a principal amount of \$200,000 payable on or before December 31, 2009, bearing interest at 12% per annum with one of our directors. The director concurrently authorized us to issue 300 shares of preferred stock in exchange for this note and an additional \$100,000 note issued prior to December 31, 2008. We completed our administrative issuance of the Series B Preferred Stock on February 16, 2009, at which time we and the director agreed that we shall be permitted, but not required, to redeem these shares at a 1% per month premium beginning 30 days from the date of their issuance at our discretion.

On January 9, 2009, we entered into an equity financing arrangement with one of our directors that provided up to \$2.2 million of additional funding, the terms of which provide for compensation of a one-time grant of warrants to purchase 100,000 shares of common stock at \$1.00 per share and ongoing grants of warrants to purchase 33,333 shares of common stock at \$1.00 per share each month that the financing arrangement is in effect. The warrants have a five year term. The commitment will be reduced on a dollar for dollar basis as we raise additional equity capital in private offerings, described above, and terminating upon completion of equity financing of \$2.2 million, upon mutual agreement or on January 1, 2010. On May 13, 2009, the director agreed to increase the equity financing arrangement to \$1.8 million available in exchange for a continuation of the ongoing grants of warrants to purchase 33,333 shares of common stock at \$1.00 per share each month which is all available on March 13, 2009.

On January 22, 2009, Beacon entered into \$500,000 of convertible notes payable with a group of private investors (the "Notes") facilitated by a broker/dealer. On March 31, 2009, we executed an extension of our demand note with First Savings Bank, the terms of which are substantially the same as the original agreement, with payments due May 15 and June 15, 2009 in the amount of \$50,000 each plus accrued interest.

We believe that our currently available cash, the proceeds of our equity financing activities, the equity financing arrangement, further debt financing and refinancing, and funds we expect to generate from operations will enable us to effectively operate our business and pay our debt obligations as they become due through April 1, 2010. However, we will require additional capital in order to execute our business plan. If we are unable to raise additional capital, we will be required to take various measures to conserve liquidity, which could include, but not necessarily be limited to, curtailing our business development activities, suspending the pursuit of our business plan, and controlling overhead expenses. We cannot provide any assurance that we will raise additional capital. We have not secured any commitments for new financing at this time, nor can we provide any assurance that new financing will be available to us on acceptable terms, if at all.

NOTE 3 – BUSINESS COMBINATIONS

Phase I Acquisitions

On December 20, 2007, Beacon acquired four operating companies (i) ADSnetcurve, (ii) Bell-Haun Systems, Inc., (iii) CETCON, Inc., and (iv) Strategic Communications, Inc.

The aggregate purchase price paid by Beacon, inclusive of direct transaction expenses, in connection with the ADSnetcurve acquisition amounted to \$1,647,548, including 700,000 shares of common stock valued at \$.85 per share, \$666,079 of cash, a \$220,000 secured promissory note (“ADS Note”), and estimated direct transaction expenses of \$172,345 net of \$5,876 of cash acquired.

The aggregate purchase price paid by Beacon, inclusive of direct transaction expenses, in connection with the Bell-Haun acquisition amounted to \$794,100, including 500,000 shares of common stock valued at \$.85 per share, \$155,048 of cash, notes payable (the “Bell-Haun Notes”) in the amount \$119,000, and future payments in the amount of \$50,000 related to non-compete agreements that are included in the direct transaction costs of \$95,052.

The aggregate purchase price paid by Beacon, inclusive of direct transaction expenses, in connection with the CETCON acquisition amounted to \$2,158,111, including 900,000 shares of common stock valued at \$.85 per share, \$700,000 of cash, a \$600,000 secured promissory note (the “CETCON Note”) and direct transaction costs of \$235,519 net of cash acquired of \$142,407.

The aggregate purchase price paid by Beacon, inclusive of direct transaction expenses, in connection with the Strategic acquisition amounted to \$2,208,526, including 1,125,000 shares of common stock valued at \$.85 per share, \$220,500 of cash, a \$562,500 secured promissory note (the “Strategic Secured Note”), a \$342,000 promissory note (the “Strategic Escrow Note”) and direct transaction expenses of \$127,276.

The following table provides a breakdown of the purchase prices of each of the acquired businesses including the fair value of purchase consideration issued to the sellers of the acquired business and direct transaction expenses incurred by the Company in connection with consummating these transactions:

	ADSnetcurve	Bell-Haun Systems	CETCON	Strategic Communications	Total Consideration
Cash paid	\$ 666,079	\$ 155,048	\$ 700,000	\$ 220,500	\$ 1,741,627
Direct acquisition costs	172,345	95,052	235,518	127,276	630,191
Net of cash acquired	(5,876)	—	(142,407)	—	(148,283)
Cash used in acquisitions	\$ 832,548	\$ 250,100	\$ 793,111	\$ 347,776	\$ 2,223,535
Notes payable	220,000	119,000	600,000	904,500	1,843,500
Common stock issued	595,000	425,000	765,000	956,250	2,741,250
	\$ 1,647,548	\$ 794,100	\$ 2,158,111	\$ 2,208,526	\$ 6,808,285

Under the purchase method of accounting, the total purchase price was allocated to each of the acquired entities, net tangible and identifiable intangible assets based on their estimated fair values as of December 20, 2007. The excess of the purchase price over the net tangible and identifiable intangible assets was recorded as goodwill.

	ADSnetcurve	Bell-Haun Systems	CETCON	Strategic Communications	Total Consideration
Accounts receivable	\$ 151,208	\$ 71,335	\$ 466,458	\$ —	\$ 689,001
Inventory	—	168,065	—	450,536	618,601
Prepaid expenses and other current assets	13,430	34,522	5,516	1,815	55,283
Property and equipment	47,500	19,243	20,000	140,000	226,743
Goodwill	524,396	451,252	994,007	821,994	2,791,649
Customer relationships	862,027	843,760	927,887	1,240,400	3,874,074
Covenants not to compete	100,000	30,000	200,000	100,000	430,000
Security deposits	21,541	—	—	6,050	27,591
Line of credit obligation	—	(250,000)	—	—	(250,000)
Accounts payable and accrued liabilities	(40,103)	(319,911)	(55,278)	(516,984)	(932,276)
Customer deposits	(32,451)	(44,914)	(205,532)	(9,795)	(292,692)
Capital lease obligations	—	—	—	(25,490)	(25,490)
Long-term debt	—	(159,252)	(194,947)	—	(354,199)
Other acquisition liability	—	(50,000)	—	—	(50,000)
	<u>\$ 1,647,548</u>	<u>\$ 794,100</u>	<u>\$ 2,158,111</u>	<u>\$ 2,208,526</u>	<u>\$ 6,808,285</u>
Net tangible asset acquired (liabilities assumed)	<u>\$ 161,125</u>	<u>\$ (530,912)</u>	<u>\$ 36,217</u>	<u>\$ 46,132</u>	<u>\$ (287,438)</u>

Beginning December 21, 2007, the day immediately following the effective date of the transaction, the financial results of Strategic were consolidated with those of our business. The acquisition was accounted for under the purchase method of accounting.

NOTE 4 – CONDENSED CONSOLIDATED BALANCE SHEET

Accounts Receivable

Accounts receivable consisted of the following:

	As of March 31, 2009	As of September 30, 2008
	(unaudited)	
Accounts receivable	\$ 2,049,184	\$ 1,555,162
Less: Allowance for doubtful accounts	(94,912)	(50,000)
Accounts receivable, net	<u>\$ 1,954,272</u>	<u>\$ 1,505,162</u>

Inventory

Inventory consisted of the following:

	As of March 31, 2009	As of September 30, 2008
	(unaudited)	
Inventory (principally parts and system components)	\$ 796,237	\$ 793,462
Less: reserve for obsolete inventory	(68,697)	(35,058)
Less: current portion	(566,930)	(597,794)
Inventory, non-current	<u>\$ 160,610</u>	<u>\$ 160,610</u>

Inventory includes parts and system components for phone systems that we use to fulfill repair, maintenance services and/or upgrade requirements. A portion of these items, which are stated at their net realizable value, are likely to be used after the next twelve months and are therefore presented as non-current inventory in the accompanying balance sheet. A portion of the inventory on hand at March 31, 2009 was acquired in the business combinations completed on December 20, 2007, which are stated at net realizable value using the purchase method of accounting.

Intangible Assets

The following table is a summary of the intangible assets acquired in business combinations as described in Note 3 as of March 31, 2009:

	ADSnetcurve	Bell-Haun Systems	CETCON	Strategic Communications	Total Consideration
Goodwill	\$ 524,396	\$ 451,252	\$ 994,007	\$ 821,993	\$ 2,791,648
	ADSnetcurve	Bell-Haun Systems	CETCON	Strategic Communications	Total Consideration
Customer relationships	862,027	843,760	927,887	1,240,400	3,874,074
Contracts not to compete	100,000	30,000	200,000	100,000	430,000
	962,027	873,760	1,127,887	1,340,400	4,304,074
Less: Accumulated amortization	(162,844)	(135,006)	(228,867)	(205,137)	(731,854)
Intangibles, net	799,183	738,754	899,020	1,135,263	3,572,220

Amortization expense for the three months ended March 31, 2009 and 2008 was approximately \$115,000 and \$160,000 respectively. Amortization expense for the six months ended March 31, 2009 and 2008 was approximately \$230,000 and \$181,000, respectively.

Debt

Below is a summary of the current and non-current debt outstanding:

	As of March 31, 2009	As of September 30, 2008
	(unaudited)	
Lines of Credit and Short-Term Notes	\$ 153,600	\$ 200,000
Integra Bank	494,682	548,541
Acquisition notes (payable to the sellers of the acquired businesses)		
ADSnetcurve	115,638	156,617
Bell-Haun	97,344	119,000
CETCON	462,340	515,627
Strategic Secured Note	344,674	399,617
Strategic Escrow Note	—	72,670
	1,514,678	1,812,072
Less: current portion	(520,627)	(495,595)
Non-current portion	\$ 994,051	\$ 1,316,477
Bridge notes (non-current)	\$ 619,019	\$ 571,160
Convertible Notes - Current	\$ 454,003	\$ —

Lines of Credit and Short-Term Notes

On December 29, 2008, Beacon and First Savings Bank refinanced a short term line of credit that had matured and was converted into a demand note in the amount of \$100,000. The Note was originally due in two payments of \$50,000 each on January 15, 2009 and February 15, 2009 and bears interest at a rate of 5.00% per annum. On March 31, 2009, we executed an extension of this note due in two payments of \$50,000 each on May 15, 2009 and June 15, 2009 with all other terms left unchanged.

Interest expense on short term debt and lines of credit amounted to approximately \$11,000 and \$0 of which we paid approximately \$1,000 and \$0 for the three months ended March 31, 2009 and 2008, respectively. Interest expense on short term debt and lines of credit amounted to approximately \$16,000 and \$0 of which we paid approximately \$4,000 and \$0 for the six months ended March 31, 2009 and 2008, respectively.

On October 29, November 17 and November 19, 2008, Beacon and Midian Properties, LLC, entered into short term credit facilities in the amounts of \$100,000, \$120,000 and \$70,000, respectively, the principal of which was due and payable to the holder within seven (7) days of issuance along with a 0.5% origination fee. These amounts were paid back in full. On March 27, 2009, Beacon and Midian, entered into a short term credit facility in the amount of \$53,000, the principal of which was due and payable to the holder within seven (7) days of issuance along with a 1% origination fee. This credit facility has been fully repaid.

Term Debt

During the six months ended March 31, 2009 and 2008, Beacon paid approximately \$298,000 and \$495,000 in principal payments on our term debt. We recorded interest expense of approximately \$85,000 and \$5,500 for our term loans and paid approximately \$19,000 and \$0 for the six months ended March 31, 2009 and 2008, respectively.

Bridge Notes

During the six months ended March 31, 2009, the Bridge note holders agreed not to demand repayment of the notes prior to June 30, 2010. Accordingly, the notes are included in non-current liabilities in the accompanying balance sheet at March 31, 2009.

We recorded contractual interest expense of approximately \$5,900 and \$3,000 of which \$5,000 and \$0 was paid for the three months ended March 31, 2009 and 2008, respectively. We recorded contractual interest expense of approximately \$12,700 and 5,000 of which \$10,000 and \$0 was paid for the six months ended March 31, 2009 and 2008, respectively. Further, we recorded aggregate accretion of the discount on these notes which relates to warrants and the beneficial conversion feature of the notes of approximately \$23,930 and \$8,000 for the three months ended March 31, 2009 and 2008. We recorded aggregate accretion of the discount on these notes which relates to warrants and the beneficial conversion feature of the notes of approximately \$48,000 and \$8,000 for the six months ended March 31, 2009 and 2008. The unamortized discount relating to the beneficial conversion feature amounts to \$80,981 as of March 31, 2009.

The Bridge Notes contained a provision to earn additional warrants to purchase Beacon common stock during the term the note holder refrained from demanding repayment until the maturity of the notes. As the note holders have agreed unconditionally not to demand payment of the notes before June 30, 2010 and that date is after the original maturity of the Bridge Notes, these warrants are deemed to have been fully earned as of March 31, 2009. For the three and six months ended March 31, 2009 we recorded non-cash interest expense of \$56,840 for warrants earned in connection with the Bridge Notes as follows:

Vesting Date	Quantity Vested	Expected Life (days)	Strike Price	Fair Value of Common Stock	Volatility Rate	Dividend Yield	Risk-Free Interest Rate	Value per Warrant	Charge to Interest Expense
10/15/2008	14,000	1,582	\$ 1.00	\$ 1.20	66.34%	0%	2.90%	\$ 0.70	\$ 9,800.00
11/15/2008	14,000	1,551	\$ 1.00	\$ 0.85	66.34%	0%	2.33%	\$ 0.42	\$ 5,880.00
11/20/2008	196,000	1,546	\$ 1.00	\$ 0.55	66.34%	0%	1.94%	\$ 0.21	\$ 41,160.00

Convertible Notes Payable

On January 22, 2009, Beacon entered into convertible notes payable with a group of private investors (the "Notes") facilitated by a broker/dealer. Proceeds of the Notes were \$500,000 in the aggregate of which the broker/dealer received a cash commission of \$50,000 and a non-accountable expense reimbursement of \$25,000. The proceeds were used to repay certain other short term credit obligations and for working capital purposes. The Notes have a maturity date of July 21, 2009 and bear interest at a fixed annual rate of 12.5% due monthly. The Notes can be extended by Beacon to January 21, 2010 and, upon extension, would bear interest at a fixed annual rate of 15% from the original maturity date to the extended maturity date due monthly along with principal

payments of 16.67% of the principal due monthly from the original maturity date through the extended maturity date until paid in full. The Notes can be prepaid at any time on or after March 21, 2009 in whole or in part upon 30 days prior written notice to the holders without penalty. The holder may convert the Notes into shares of Beacon Common Stock, par value \$0.001, at the rate of \$0.75 per share in minimum increments of \$5,000. The holder received a five-year warrant to purchase one share of Beacon Common Stock at a purchase price of \$1.00 per share per \$10 of Note balance. The Notes contain certain provisions in the event of default that could result in acceleration of payment of the entire balance including accrued and unpaid interest. Acceleration of the Note in the event of default would also result in the interest rate increasing by 0.4166% per event. In addition, the noteholders were issued warrants to purchase an aggregate of 50,000 shares of our common stock in connection with this transaction.

The fair value of the Note Warrants, which are exercisable into 50,000 shares of common stock, which amounted to approximately \$20,500 which, was calculated using the Black-Scholes option pricing model. Assumptions relating to the estimated fair value of the Note Warrants are as follows: fair value of common stock of \$.80 on the commitment date of January 22, 2009; risk-free interest rate of 1.61%; expected dividend yield of zero percent; expected life of 1,825 days through January 30, 2014; and current volatility of 66.34%. Accordingly, we recorded aggregate discounts of \$74,334 to the face value of the Notes which includes \$20,500 for the relative fair value of the warrants in accordance with Accounting Principle Board Opinion No. 14 "Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants," ("APB 14"). The discount is being accreted over the estimated life of the Notes of 6 months from the date of issuance on January 22, 2009. Accretion amounted to \$28,337 through March 31, 2009 and is included as a component of interest expense in the accompanying Statement of Operations.

We evaluated the conversion options embedded in the Notes to determine (in accordance with SFAS 133 and EITF 00-19) whether they should be bifurcated from their host instruments and accounted for as separate derivative financial instruments. We determined, in accordance with SFAS 133, that the risks and rewards of the common shares underlying the conversion feature are clearly and closely related to those of the host instrument. Accordingly the conversion features are being accounted for as embedded conversion options in accordance with EITF 98-5 and EITF 00-27.

NOTE 5 – RELATED PARTY TRANSACTIONS

The Company has obtained insurance through an agency owned by one of its founding stockholders/directors. Insurance expense paid through the agency for the three months ended March 31, 2009 and 2008 was approximately \$42,000 and \$38,000 respectively, and \$65,000 and \$44,000 for the six months ended March 31, 2009 and 2008, respectively, and is partly deferred and partly included in selling, general and administrative expense in the accompanying condensed consolidated statement of operations.

On May 15, 2008, subsequently amended on August 19, 2008, we entered into an equity financing arrangement with one of our directors that provided up to \$3,000,000 of additional funding, terms of which provided for issuance of warrants to purchase 33,333 shares of common stock at \$1.00 per share per month for the period the financing arrangement is in effect. The warrants have a five-year term. The equity financing arrangement expired on December 31, 2008. Accordingly, we recognized \$82,166 of interest expense for the three and six months ended March 31, 2009 based on the fair value of the warrants as they were earned. The fair values were calculated using the Black-Scholes option pricing model with the following assumptions:

Date Earned	Quantity Earned	Expected Life (days)	Strike Price	Fair Value of Common Stock	Volatility Rate	Dividend Yield	Risk-Free Interest Rate	Value per Warrant	Charge to Interest Expense
10/15/2008	33,333	1,825	\$ 1.00	\$ 1.20	66.34%	0%	2.90%	\$ 0.74	\$ 24,666
11/15/2008	33,333	1,825	\$ 1.00	\$ 0.85	66.34%	0%	2.33%	\$ 0.45	\$ 15,000
12/15/2008	33,333	1,825	\$ 1.00	\$ 1.52	66.34%	0%	1.50%	\$ 0.99	\$ 33,000
12/31/2008	16,667	1,825	\$ 1.00	\$ 1.01	66.34%	0%	1.55%	\$ 0.57	\$ 9,500

On January 9, 2009, we entered into an equity financing arrangement with one of our directors that provided a commitment up to \$2.2 million of additional funding. This arrangement superseded the existing equity financing arrangement between the same director and the Company that had been entered into on May 15, 2008 and amended August 19, 2008. Under the terms of this equity financing arrangement, under certain circumstances the Company may sell shares of its common stock to this director at the same price per share and other terms as the most recent sale of shares of its Common Stock to a third party in a transaction intended to raise capital. On May 13, 2009, the director agreed to increase the equity financing arrangement to \$1.8 million available in exchange for a continuation of the ongoing grants of warrants to purchase 33,333 shares of common stock at \$1.00 per share each month which is all available as of May 13, 2009, and which will be reduced on a dollar for dollar basis by the amount of the proceeds of the ongoing private placements of the Company's securities or any additional placements of equity financing.

This arrangement will terminate upon the earliest of: April 1, 2010; the date on which an aggregate of \$1.8 million of proceeds from the ongoing private placements of the Company's securities has been raised; acceleration of indebtedness of, or a judgment against, the Company in an amount greater than \$25,000; the bankruptcy or insolvency of the Company; or the mutual consent of the Company and the director.

In addition, in the event that the equity financing arrangement is drawn upon by the Company, then the director will have the right to purchase shares of common stock from two of the founding shareholders at a purchase price of \$0.001 per share.

We recognized \$62,334 of interest expense for the three and six months ended March 31, 2009 based on the fair value of the warrants as they were earned. The fair values were calculated using the Black-Scholes option pricing model with the following assumptions:

Date Earned	Quantity Earned	Expected Life (days)	Strike Price	Fair Value of Common Stock	Volatility Rate	Dividend Yield	Risk-Free Interest Rate	Value per Warrant	Charge to Interest Expense
1/9/2009	100,000	1,825	\$ 1.00	\$ 0.80	66.34%	0%	1.51%	\$ 0.41	\$ 41,000
2/9/2009	33,333	1,825	\$ 1.00	\$ 0.80	66.34%	0%	1.99%	\$ 0.41	\$ 13,667
3/9/2009	33,333	1,825	\$ 1.00	\$ 0.54	66.34%	0%	1.90%	\$ 0.23	\$ 7,667

Under a marketing agreement with a company owned by the wife of Beacon's president, we provide procurement and installation services as a subcontractor. We earned revenue of approximately \$30,000 and \$0 for procurement and installation services provided under this marketing agreement for the three months ended March 31, 2009 and 2008, respectively. For the six months ended March 31, 2009 and 2008, we earned approximately \$393,000 and \$0 under this agreement.

NOTE 6 – COMMITMENTS AND CONTINGENCIES

Employment Agreements

The Company has entered into employment agreements with three of its key executives with no specific expiration dates that provide for aggregate annual compensation of \$480,000 and up to \$120,000 of severance payments for termination without cause. In addition, the Company entered into employment agreements with five key employees of certain of the acquired businesses upon its completion of the business combinations described in Note 3, two of which were terminated in January of 2009. Aggregate compensation under the three remaining agreements amounts to \$380,000. The remaining agreements have no specified expiration date. These agreements also provide for aggregate severance payments of up to \$126,000 for termination without cause.

Operating Leases

The Company has entered into operating leases for office facilities in Louisville, KY, Columbus, OH and Cincinnati, OH. A summary of the minimum lease payments due on these operating leases exclusive of the Company's share of operating expenses and other costs:

2009	\$	150,605
2010		59,802
		<hr/>
	\$	210,407
		<hr/>

Strategic Communications Tax Liability

The assets acquired from Strategic Communications are encumbered by \$313,000 of tax liens for delinquent sales and use, payroll and income taxes incurred by Strategic prior to the acquisition on December 20, 2007. As of March 31, 2009 the balance has been repaid and liens released.

Placement Agent Warrants

Pursuant to a consulting agreement with a placement agent, we committed to issue warrants to purchase 1.5 million shares of common stock at exercise prices ranging from \$1.00 to \$2.50 per share. As the business of the placement agent is in transition, we are uncertain as to the distribution of these warrants to the parties involved. No services have been provided to date by the placement agent. Accordingly, we have not issued these warrants as of March 31, 2009 and are uncertain as to whether any services will be provided to us under this agreement or the timing of the issuance of any warrants at this time.

Engagement of Investor Relations Firm

On January 20, 2009, we engaged an investor relations firm to aid us in developing a marketing plan directed at informing the investing public as to our business and increasing our visibility to FINRA registered broker/dealers, the investing public and other institutional and fund managers. In exchange for providing such services, the firm will receive \$10,000 per month for the duration of the agreement, 10,000 shares of our restricted common stock per month for the first six months and 15,000 shares of our restricted common stock per month for the remaining six months for an aggregate of 150,000 shares of restricted stock. Concurrent with executing the agreement, we paid \$20,000 and issued 20,000 shares of restricted common stock representing the installments for first two months of the contract. The 20,000 shares of fully vested non-forfeitable restricted stock with a fair value of \$16,800 on date of grant was recorded as professional fees expense using the measurement principles enumerated under EITF 96-18. The contract has a 12 month term and can be terminated upon 30 days notice.

On March 13, 2009, we engaged an investor relations firm to further aid us in developing a marketing plan directed at informing the investing public as to our business and increasing our visibility to FINRA registered broker/dealers, the investing public and other institutional and fund managers. In exchange for providing such services, the firm will receive \$10,000 per month for the duration of the agreement. Concurrent with executing the agreement, we paid \$10,000 and issued 200,000 shares of fully vested and non-forfeitable restricted common stock with a fair value of \$80,000 on date of grant recorded as professional fees expense using the measurement principles enumerated under EITF 96-18 "Accounting for Equity Instruments that are Issued to Other than Employees for Acquiring or in Conjunction with Selling Goods or Services" ("EITF 96-18"). The term of the agreement is 12 months, terminable upon 30 days notice after 6 months.

NOTE 7 – STOCKHOLDERS EQUITY

Authorized Capital

The Company is currently authorized to issue up to 70,000,000 shares of common stock, par value \$0.001 per share, and 5,000,000 shares of preferred stock, par value \$0.01 per share, of which three series have been designated: 4,500 shares of Series A Convertible Preferred Stock, 1,000 shares of Series A-1 Convertible Preferred Stock, and 4,000 shares of Series B Convertible Preferred Stock.

Preferred Stock

Each share of Series A, Series A-1 and Series B preferred has voting rights equal to an equivalent number of common shares into which it is convertible. The Series A and A-1 Preferred Stock are convertible into common stock at any time, at the option of the holder at a conversion price of \$.75 per share. The conversion price is subject to adjustment for stock splits, stock dividends, recapitalizations, dilutive issuances and other anti-dilution provisions, including circumstances in which we, at our discretion, issue equity securities or convertible instruments that feature prices lower than the conversion price specified in the Series A and A-1 preferred shares. The Series B Preferred Stock is convertible into common stock at any time, at the option of the holder at a conversion price of \$.90 per share. The Series A, A-1 and B are also automatically convertible into shares of our common stock, at the then applicable conversion price upon the closing of a firm commitment underwritten public offering of shares of our common stock yielding aggregate proceeds of not less than \$20 million or under certain other circumstances when the trading volume and average trading prices of the stock attain certain specified levels. The holders of the Series A and Series A-1 are entitled to receive contractual cumulative dividends in preference to any dividend on the common stock at the rate of 10% per annum on the initial investment amount commencing on the date of issue. The holders of the Series B are entitled to receive contractual cumulative dividends in preference to any dividend on the common stock (but subject to the rights of the Series A and Series A-1) at the rate of 6% per annum on the initial investment amount commencing on the date of issue. Such dividends are payable on January 1, April 1, July 1 and October 1 of each year. Dividends accrued but unpaid with respect to this feature amounted to \$394,904, \$65,450, and \$11,152 as of March 31, 2009 for the Series A, A-1, and B preferred, respectively, and are presented as an increase in net loss available to the common stockholders of \$126,000 and \$251,152 for the three and six months ended March 31, 2009, respectively. The Company has the option of paying the dividend in either common stock or cash.

The Series A, A-1 and B Preferred Stock designation contains certain restrictive covenants including restrictions against: the declaration of dividend distributions to common stockholders; certain mergers, consolidations and business combinations; the issuance of preferred shares with rights or provisions senior to each of the Series A, A-1, and B Preferred Stock; and restrictions against incurring or assuming unsecured liabilities or indebtedness unless certain minimum performance objectives are satisfied. The Series A Preferred Stock is senior to the Series A-1 Preferred Stock, and the Series A and A-1 are senior to the Series B Preferred Stock.

The Series A, A-1 and B Preferred Stock also contains a right of redemption in the event of liquidation or a change in control. The redemption feature provides for payment of 125% of the face value and 125% of any accrued unpaid dividends in the event of bankruptcy, change of control, or any actions to take the Company private. The amount of the redemption preference was \$5,063,880, \$1,081,813, and \$888,940 for the Series A, A-1, and B preferred, respectively, as of March 31, 2009.

The Company, by resolution of the Board of Directors, may designate additional series of Preferred Stock (“blank check preferred stock”) and to fix or alter the rights, preferences, privileges and restrictions granted to or imposed upon such blank check preferred stock, and the number of shares constituting any such series of such blank check preferred stock. The rights, privileges and preferences of any such blank check preferred stock shall be subordinate to the rights, privileges and preferences to the existing Series A and Series A-1 Preferred Stock. The Series B Preferred Stock was issued as “blank check preferred stock” and as such is subordinate to the rights, privileges and preferences of the Series A and Series A-1 Preferred Stock.

The Board of Directors may also increase or decrease the number of shares of any series (other than the Series A Preferred Stock or the Series A-1 Preferred Stock), prior or subsequent to the issue of that series, but not below the number of shares of such series then outstanding.

As described in Note 1, the Company applies the classification and measurement principles enumerated in EITF Topic D-98 with respect to accounting for its issuances of the Series A, A-1, and B preferred stock. The Company is required, under Nevada law, to obtain the approval of its board of directors in order to effectuate a merger, consolidation or similar event resulting in a more than 50% change in control or a sale of all or substantially all of its assets. The board of directors is then required to submit proposals to enter into these types of transactions to its stockholders for their approval by majority vote. The preferred stockholders do not currently (i) control or have representation on the Company’s Board of Directors and/or (ii) have sufficient voting rights to control a redemption of these shares by either of these events. In addition the effectuation of any transaction or series of transactions resulting in a more than 50% change in control can be made only by the Company in its sole discretion. Based on these provisions, we classified the Series A, A-1, and B preferred shares as permanent equity in the accompanying condensed consolidated balance sheet because the liquidation events are deemed to be within the Company’s sole control in accordance with the provisions of EITF Topic D-98.

We evaluate the Series A-1 convertible preferred stock at each reporting date for appropriate balance sheet classification.

The Series B Preferred Shareholder relinquished their rights to full ratchet dilution in exchange for adjustment of the conversion price from \$.90 to \$.80 per common share. This conversion price adjustment resulted in a beneficial conversion feature, deemed dividend in the amount of \$87,500, which was recognized in the three and six months ended March 31, 2009.

Additionally, the Company agreed to adjust the exercise price of the attached warrants from \$1.20 to \$1.00 per share, thus triggering a beneficial conversion feature deemed dividend in the amount of \$11,865, also recognized in the three and six months ended March 31, 2009.

Preferred Stock Dividend

On October 7, 2008 and January 9, 2009, the Company elected to pay the contractual dividends due the Series A, A-1, and B preferred stock holders in additional shares of the related preferred stock. The shares of preferred stock are convertible into 289,012 shares of common stock. The Company follows the guidelines of EITF 00-27 when accounting for pay-in-kind dividends that are settled in convertible securities with beneficial conversion features. For the three and six months ended March 31, 2009 the Company therefore recorded a deemed dividend of \$7,427 and \$87,774, respectively related to the conversion feature based on the difference between the effective conversion price of the conversion option of \$0.75 per share and the fair value of the common stock of \$1.24 per share on the date of election which is considered the commitment date.

Preferred Stock Conversion to Common Stock

During the six months ended March 31, 2009, holders of our Preferred Stock converted 343.8 shares of Series A and A-1 Preferred Stock into 458,397 shares of our common stock.

On July 25, 2008, we engaged a registered broker-dealer (the “Placement Agent”) in a private placement (the “July Common Offering”) of up to 3,750,000 units (the “Common Units”), for an aggregate purchase price of \$3,000,000, with each Common Unit comprised of (i) one share of Common Stock, and (ii) a five year warrant to purchase one-half share of Common Stock (each, a “Common Offering Warrant”).

On November 12, 2008, we engaged the Placement Agent in a private placement (the “November Common Offering”) of up to 3,750,000 Common Units for an aggregate purchase price of \$3,000,000, with each Common Unit comprised of (i) one share of Common Stock, and (ii) a five year warrant to purchase one-half share of Common Stock (each, an “Common Offering Warrant”) at a purchase price of \$1.00 per share (collectively the “Common Offering”). For the three and six months ended March 31, 2009 an anti-dilution provision of the stock offering of resulted in a requirement to issue an additional 148,929 shares of common stock at par value \$0.001 or \$148.93 has been recognized and classified as common stock. In the event that the Common Offering is oversubscribed, we may sell and issue up to an additional 562,500 Common Units.

The Common Offering Warrants each have a five year exercise period and an exercise price of \$1.00 per share of Common Stock, payable in cash on the exercise date or cashless conversion if a registration statement or current prospectus covering the resale of the shares underlying the Common Offering Warrants is not effective or available at any time more than six months after the date of issuance of the Common Offering Warrants. The exercise price is subject to adjustment upon certain occurrences specified in the Common Offering Warrants.

During the six months ended March 31, 2009, we sold an aggregate of 2,601,024 Common Units, under both of these offerings, to accredited investors for net proceeds of \$1,586,304 (gross proceeds of \$2,079,677 less offering costs of \$493,373). Offering costs included fees paid to the placement agent of \$375,826, a fee for the successful completion of the placement of \$62,425 paid to a consultant and \$55,122 in legal and related fees in addition to warrants to purchase 1,452,053 shares of our common stock at \$1.00 per share with a 5 year term. We used the proceeds of the Common Offering to provide working capital.

Exchange of Notes for Series B Preferred Stock

On January 7, 2009, we entered into a note payable with a principal amount of \$200,000 payable on or before December 31, 2009, bearing interest at 12% per annum with one of our directors. The director concurrently authorized us to issue 300 shares of preferred stock in exchange for this note and an additional \$100,000 note issued prior to December 31, 2008. We completed our administrative issuance of the Series B Preferred Stock on February 16, 2009, at which time we and the director agreed that we shall be permitted, but not required to redeem these shares at a 1% per month premium beginning 30 days from the date of their issuance at our discretion.

NOTE 8 – INCOME TAXES

As of September 30, 2008, we had incurred net operating losses since inception totaling \$3,504,977 which expire in 2023 through 2028. After considering all available evidence, we fully reserved for our deferred tax assets since it is more likely than not that the benefits of such deferred tax assets will not be realized in future periods. The acquired net operating losses are subject to internal revenue code section 382 and similar state income tax regulations, which could result in limitations on the amount of such losses that could be recognized during any taxable year.

In June 2006, the Financial Accounting Standards Board (“FASB”) issued Interpretation 48, “Accounting for Uncertainty in Income Taxes” (“FIN 48”), which we adopted effective June 6, 2007 (date of inception). FIN 48 requires companies to recognize in their financial statements the impact of a tax position if that position is more likely than not of being sustained on audit based on the technical merits of the position. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 provides guidance on derecognition, classification, interest, and penalties, accounting in interim periods, and disclosure. For the three and six months ended March 31, 2009 we had no material uncertain tax positions. Significant tax jurisdictions that we file income tax returns in include the Commonwealth of Kentucky and the state of Ohio. We record penalties and interest if it is more likely than not of being sustained on audit based on the technical merits of the position. We record penalties in selling, general and administrative expenses and interest as interest expense.

NOTE 9 – EMPLOYEE BENEFIT PLANS

Stock Options and Other Equity Compensation Plans

In March 2008, our Board of Directors adopted the 2008 Long Term Incentive Plan, subject to shareholder approval, referred to as the 2008 Incentive Plan. The 2008 Incentive Plan was approved by the shareholders on April 16, 2009. We reserved 1,000,000 shares of our common stock under the 2008 Incentive Plan and for other compensatory equity grants for the issuance of stock options, restricted stock awards, stock appreciation rights

and performance awards, pursuant to which certain options will be granted. The terms and conditions of such awards are determined at the sole discretion of our board of directors or a committee designated by the Board to administer the plan. Previously unissued shares of our common stock are provided to a participant upon a participant's exercise of vested options. Of the 1,000,000 shares authorized, 1,000,000 are available for future grants as of March 31, 2009.

On October 7, 2008 and January 9, 2009, our Board of Directors authorized Beacon to grant employee stock options to purchase 25,000 and 285,000 shares of common stock, respectively.

In accordance with SFAS 123(R), we recognized non-cash share-based compensation expenses as follows:

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008	Six Months Ended March 31, 2009	Six Months Ended March 31, 2008
Non-Cash Share-Based Compensation Expense				
Restricted Stock	\$ 44,119	\$ 44,610	\$ 89,220	\$ 176,983
Stock Options	54,883	356	61,870	356
Total Stock Compensation Expense	\$ 99,002	\$ 44,966	\$ 151,090	\$ 177,339

We value stock options using the Black-Scholes option-pricing model. In determining the expected term, we separate groups of employees that have historically exhibited similar behavior with regard to option exercises and post-vesting cancellations. The option-pricing model requires the input of subjective assumptions, such as those listed below. The volatility rates are based on historical stock prices of similarly situated companies and expectations of the future volatility of the Company's common stock. The expected life of options granted are based on historical data, which, as of March 31, 2009 is a partial option life cycle, adjusted for the remaining option life cycle by assuming ratable exercise of any unexercised vested options over the remaining term. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant. The total expense to be recorded in future periods will depend on several variables, including the number of share-based awards.

The fair values of options granted and outstanding were estimated on the date of grant using the following assumptions:

Date Earned	Quantity Issued	Expected Life (days)	Strike Price	Volatility	Dividend Yield	Risk-Free Interest Rate	Value per Option	Share Based Compensation
3/26/2008	90,000	2,373	\$ 1.20	66.34%	0%	2.55%	\$ 0.72	\$ 64,980
5/8/2008	30,900	2,373	\$ 1.00	66.34%	0%	2.99%	\$ 0.64	\$ 19,776
10/7/2008	25,000	2,373	\$ 1.24	66.34%	0%	2.45%	\$ 0.79	\$ 19,750
1/9/2009	285,000	2,373	\$ 0.80	66.34%	0%	1.99%	\$ 0.50	\$ 142,500

Shares granted vest 33% annually as of the anniversary of the grant through 2011 and carry a ten year contractual term. As of March 31, 2009, there was approximately \$6,000 in non-cash share-based compensation cost related to non-vested awards not yet recognized in our condensed consolidated statements of operations. This cost is expected to be recognized over the weighted average remaining vesting period of 2.3 years. Options to purchase an aggregate of 95,000 shares of common stock were vested at March 31, 2009. For the three and six months ended March 31, 2009, no shares were forfeited and no options were exercised.

Restricted Stock

Prior to adoption of the 2008 Incentive Plan, on December 5, 2007, we issued 782,250 shares of restricted common stock with an aggregate fair value of \$666,873 to our president in exchange for \$156. Immediately upon the sale 150,000 shares vested with the remaining shares vesting in quantities of 210,750 shares on each of December 20, 2008, 2009 and 2010. We recognized \$44,120 and \$44,610 of share-based compensation expense during the three months ended March 31, 2009 and 2008, respectively, in connection with this grant. We recognized \$89,221 and \$176,983 of share-based compensation expense during the six months ended March 31, 2009 and 2008, respectively, in connection with this grant. Unamortized compensation under this arrangement amounted to \$310,803 as of March 31, 2009 and will be amortized over the remaining vesting period through December 20, 2010. The shares vest immediately upon our termination without cause or the Executive's resignation if in response to certain defined actions taken by us adverse to Executive's employment which constitute good reason as defined in the Executive's employment agreement. In the event of termination for cause, or resignation without good reason, we have the right to repurchase any unvested shares for nominal consideration.

Beacon Solutions 401(k) Plan

During the three months ended December 31, 2007, we established a retirement benefits plan, referred to as the Beacon Solutions 401(k) Plan, intended to meet the requirements of section 401(k) of the Internal Revenue Code of 1986. Under the Beacon Solutions 401(k) Plan, employees may contribute up to the maximum allowable under federal law, and we will match up to 100% of the first 1% contributed by the employee and up to 50% of the next 5% contributed by the employee, in cash subject to a vesting schedule based on years of service. As of November 30, 2008, we adopted a profit sharing match and terminated the automatic matching contribution. Our board of directors or the compensation committee will determine the match based on previously defined operating targets. All employees are eligible to enroll on date of hire. Employees are automatically enrolled at 3% employer contribution but can change their election at any time.

Total contributions under the Beacon Solutions 401(k) Plan, recorded as salaries and benefits expense, totaled approximately \$36,900 for the three and six months ended March 31, 2009. Total contributions under the Beacon Solutions 401(k) Plan, recorded as salaries and benefits expense, totaled approximately \$36,900 for the three and six months ended March 31, 2008.

NOTE 10 – SUBSEQUENT EVENTS

Sale of Common Stock and Warrants

Subsequent to March 31, 2009, we sold and issued 1,411,250 Common Units to accredited investors for an aggregate purchase price of \$1,129,000. The Company has used the proceeds of the Common Offering to provide working capital. The Placement Agent has earned cumulative cash commissions of \$112,900 and warrants to purchase an aggregate of 211,690 shares of Common Stock.

Contractual Dividends

On April 1, 2009, additional contractual dividends related to our Series A, A-1, and B Preferred Stock became due and payable in the aggregate amount of \$190,000.

Common Stock Issuance

Pursuant to the contract engaging the second investor relations firm, 10,000 Common Units were issued on each of April 16, and May 8, 2009.

Grant of Options to Purchase Common Stock

On May 8, 2009, our Board of Directors granted options to purchase 250,000 shares of common stock to an advisor with a strike price of \$1.19 per share which vest 33% each year on the anniversary of the grant.

Executive Employment Agreements

On May 8, 2009, our Compensation Committee, Board of Directors and our executives agreed in principle to new employment agreements, each of which is described below.

Bruce Widener, Chairman of the Board and Chief Executive Officer, was granted a base salary of \$240,000 per year, retroactive to January 1, 2009, with a bonus potential of an additional \$240,000 based on achievement of an increase in EBITDA of \$5.0 million for the fiscal year ended September 30, 2009 as compared to the fiscal year ended September 30, 2008, measured as 24% of Fiscal 2009 EBITDA. In addition, the agreement includes a provision for three years severance pay for termination without cause, upon a change in control or if the executive resigns for good reason, including 50% of all unearned bonus opportunity for the remaining term of the agreement, immediate vesting of all unearned options, outplacement services and office expenses of up to \$2,000 per month during the severance period. Finally, the agreement provides a grant of options to purchase up to 1.0 million shares of our common stock at an exercise price of \$1.19 per share which vest in equal amounts over a three year period on the anniversary of the grant. The term of the agreement is 36 months and it provides for a minimum annual 5% cost of living adjustment.

Richard Mills, President, was granted a base salary of \$150,000 per year with a bonus potential of \$80,000 based on achievement of an increase in EBITDA of \$5.0 million for the fiscal year ended September 30, 2009 as compared to the fiscal year ended September 30, 2008, measured as 8% of Fiscal 2009 EBITDA. In addition, the agreement provides for commissions of approximately \$120,000 based on the achievement of specific revenue targets and an expense allowance of \$12,000 for entertaining clients and corporate functions. Further, the agreement includes a provision for 12 months severance pay for termination without cause or if the executive resigns for good reason. Finally, the agreement provides a grant of options to purchase up to 1.0 million shares of our common stock at an exercise price of \$1.19 per share which vest in equal amounts over a three year period on the anniversary of the grant.

Kenneth Kerr, Chief Operating Officer, was granted a base salary of \$150,000 per year with a bonus potential of an additional \$150,000 based on achievement of an increase in EBITDA of \$5.0 million for the fiscal year ended September 30, 2009 as compared to the fiscal year ended September 30, 2008, measured as 15% of Fiscal 2009 EBITDA. In addition, the agreement includes a provision for 12 months severance pay for termination without cause or if the executive resigns for good reason.

Robert Mohr, Chief Accounting Officer, Secretary and Treasurer, was granted a base salary of \$150,000 per year with a bonus potential of an additional \$60,000 based on achievement of an increase in EBITDA of \$5.0 million for the fiscal year ended September 30, 2009 as compared to the fiscal year ended September 30, 2008, measured as 6% of Fiscal 2009 EBITDA. In addition, the agreement includes a provision for 12 months severance pay for termination without cause or if the executive resigns for good reason. Finally, the agreement provides a grant of options to purchase up to 250,000 shares of our common stock at an exercise price of \$1.19 per share which vest in equal amounts over a three year period on the anniversary of the grant.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Beacon Enterprise Solutions Group, Inc. and subsidiaries (collectively the "Company") is a unified, single source information technology and telecommunications enterprise that provides professional services and sales of information technology and telecommunications products to mid-market commercial businesses, state and local government agencies, and educational institutions. In this report, the terms "Company," "Beacon," "we," "us" or "our" mean Beacon Enterprise Solutions Group, Inc. and all subsidiaries included in our consolidated financial statements.

Cautionary Statements - Forward Outlook and Risks

Certain statements contained in this quarterly report on Form 10-Q, including, without limitation, statements containing the words "believes," "anticipates," "intends," "expects," "assumes," "trends" and similar expressions, constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based upon the Company's current plans, expectations and projections about future events. However, such statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These factors include, among others, the following:

- general economic and business conditions, such as the current global recession, that may affect demand for our services and products and the ability of our customers to pay for such services and products;
- effects of competition in the markets in which the Company operates;
- liability and other claims asserted against the Company;
- ability to attract and retain qualified personnel;
- availability and terms of capital;
- loss of significant contracts or reduction in revenue associated with major customers;
- ability of customers to pay for services;
- business disruption due to natural disasters or terrorist acts;
- ability to successfully integrate the operations of acquired businesses and achieve expected synergies and operating efficiencies from the acquisitions, in each case within expected time-frames or at all;
- changes in, or failure to comply with, existing governmental regulations; and
- changes in estimates and judgments associated with critical accounting policies and estimates.

For a detailed discussion of these and other factors that could cause the Company's actual results to differ materially from the results contemplated by the forward-looking statements, please refer to Item 2.01 "Risk Factors" in the Company's Current Report on Form 8-K filed on December 28, 2007. The reader is encouraged to review the risk factors set forth therein. The reader should not place undue reliance on forward-looking statements, which speak only as of the date of this report. Except as required by law, the Company assumes no

responsibility for updating forward-looking statements to reflect unforeseen or other events after the date of this report.

Overview

We were formed for the purpose of acquiring and consolidating regional telecom businesses and service platforms into an integrated, national provider of high quality voice, data and VOIP communications to small and medium-sized business enterprises (the “MBE Market”). Our business strategy is to acquire companies that will allow us to serve the MBE Market on an integrated, turn-key basis from system design, procurement and installation through all aspects of providing network service and designing and hosting network applications.

Beacon was a development stage enterprise with no operating history until the completion of the share exchange transaction in which the shareholders of Beacon become the majority owners of Suncrest (“Share Exchange Transaction”) completed on December 20, 2007. Concurrent with the Share Exchange Transaction, we also completed the acquisition of four complementary information technology and telecommunications businesses (the “Phase I Acquisitions”) described below.

Phase I Acquisitions

Since December 20, 2007, Beacon has focused on the consolidation of various operational elements of the Phase I Acquisitions into a single core infrastructure. In the three months ended March 31, 2008, Beacon merged the four distinct payroll systems of the Phase I Acquisitions into one payroll system; launched a company-wide intranet and human resource information system; centralized the Company’s marketing, advertising and promotional programs; and introduced a company-wide Customer Relationship Management (CRM) system. We have also hired eight new sales executives in our primary markets; launched a network circuit sales group; rebranded our customer facing sales and support material; attempted to capitalize on cross-selling opportunities among our different product and service groups and merged five financial systems into one unified financial system.

Acquisition Growth Strategy

We will continue to integrate Phase I Acquisitions into a single organization and to develop the internal infrastructure to scale the business. Consistent with our operating plan, upon our successful integration of these operations and the development of organic growth described below, we expect to pursue our phase II acquisition strategy, financed by additional debt or equity financings, by exploring acquisition targets to build around our three state operating hub to grow Beacon into a large regional telecommunications provider with a strong Southeast/Midwest concentration and focus.

Organic Growth Strategy

With respect to our plans to increase revenue organically, we have identified, and are currently pursuing, several significant customer opportunities including an international design/service contract with an existing Fortune 100 client, a domestic service contract with an existing Fortune 500 client and a hardware/services contract with the United States military. We believe these opportunities resulted, in part, from our ability to provide fully integrated voice and data communication services. In addition, subject to securing additional capital, we intend to consolidate our Louisville, Kentucky based operating facilities and implement a Cisco-centric

expansion strategy for a portion of our business. We have assessed the current market environment for the growth of our Cisco-centric business and believe that we can expand our Cisco business more efficiently and economically through organic growth rather than through acquisitions. Collectively, these opportunities could increase the Company's annual revenue to over \$25 million.

Our Cisco-centric initiative would have three elements:

- The first goal of our Cisco-expansion strategy will be to hire additional, highly skilled staff with the appropriate Cisco certifications and background. We would deploy these additional certified Cisco staff throughout all our facilities.
- The second goal is to achieve the Cisco "Silver" and then "Gold" certifications. The primary benefit of these additional certifications is that we achieve "trusted partner" status, which we believe would increase our access to the Cisco sales channel. In addition, we anticipate that a "Gold" certification would lower our cost of goods purchased from Cisco.
- The third goal is to incorporate a fully operational Cisco technology lab into our headquarters and operating facility in Louisville, Kentucky. Our goal is to create a lab superior to any Cisco demonstration facility within our region and to provide Cisco and Beacon sales executives the opportunity to bring large client accounts into the Beacon facility and demonstrate the high-definition video conferencing capabilities otherwise known as "Telepresence" technology.

Following the creation of a Cisco technology lab, we would intend to offer similar Microsoft demonstration capabilities centered on Office Communications Server 2007 and Sharepoint. We believe the need for the Microsoft lab is driven by the future of "voice" within the Microsoft roadmap. Ultimately, we expect that voice will become an application that rides atop the exchange environment and will not be a separate technology deployed as with a separate phone system.

By developing and housing these two "showcase" labs, we hope to establish a distinct competitive advantage within our primary markets and be at the forefront of Cisco's and Microsoft's efforts to reshape business communications.

Although our focus in the Cisco and Microsoft areas of our business will be on organic growth, we may explore Cisco-centric Microsoft-centric acquisition candidates in the future.

Infrastructure Management Services

Our Infrastructure Management Services are becoming an emerging revenue generator for our business. Infrastructure management services are defined by the combination and integration of our infrastructure design, installation, telecommunications, and information technology management services. By combining the integrated disciplines into one service, we are able to maintain, manage and document the complete low voltage infrastructure of our customer, a value added service that we believe reduces their cost of these services by up to 30% or more.

One of the offerings under this program is our I³MAC Services offering which stands for Innovative, Intelligent, Installation, Moves, Adds, and Changes. It is an internally developed system that supports our network infrastructure management service offering which includes: Physical layer assessment; Network design and engineering; Bid specification; Materials, labor and logistics; Documentation, implementation and ongoing management of the physical network including all moves, adds, and changes. Today companies are asked to achieve more with fewer resources than ever before.

We have signed a contract to provide our I³MAC Services to one of the world's premier pharmaceutical and consumer health products companies with over 250 operating businesses and headquarters in New Jersey. Under the terms of the contract, we expect to provide, as requested, all moves, adds and changes for low voltage infrastructure, including cabling, at the manufacturer's companies across North America, Canada and Puerto Rico.

As we ramp up our operations to provide our services to this client, we hope to establish a national presence to leverage with other national customers who may be able to take advantage of the savings we expect to provide with this value added service.

Results of Operations

For the three and six months ended March 31, 2009 and 2008

Revenue for the three months ended March 31, 2009 and 2008, was approximately \$2,278,000 and \$1,572,000 respectively, consisting of approximately \$1,080,000 and \$539,000 of business telephone system installations and time and materials services for system maintenance, \$836,000 and \$731,000 of engineering and design services, \$232,000 and \$302,000 of customer specific application design and time and material services, \$86,000 and \$0 of infrastructure management services, and \$44,000 and \$0 of carrier services. Revenue for the six months ended March 31, 2009 and 2008, was approximately \$4,079,000 and \$1,709,000 respectively, consisting of approximately \$2,190,000 and \$597,000 of business telephone system installations, and time and materials services for system maintenance, \$1,276,000 and \$780,000 of engineering and design services, \$459,000 and \$332,000 of customer specific application design and time and material services, \$86,000 and \$0 of infrastructure management services and \$68,000 and \$0 of carrier services.

Cost of goods sold for the three months ended March 31, 2009 and 2008 amounted to approximately \$1,392,000, and \$839,000, respectively and consisted of approximately \$766,000 and \$294,000 of equipment and materials used in business telephone systems installations and parts used in services, \$447,000 and \$435,000 of direct labor, \$86,000 and \$105,000 of direct project related costs, and \$93,000 and \$5,000 of subcontractor fees incurred in providing all of our services. For the six months ended March 31, 2009 and 2008, Cost of goods amounted to approximately \$2,709,000, and \$874,000, respectively and consisted of approximately \$1,430,000 and \$301,000 of equipment and materials used in business telephone systems installations and parts used in services, \$915,000 and \$444,000 of direct labor, \$181,000 and \$122,000 of direct project related costs, and \$183,000 and \$7,000 of subcontractor fees incurred in providing all of our services

For the three months ended March 31, 2009 we experienced an increase in sales of \$706,000. This growth was across all service lines but margin contraction of 8% for the three months ended March 31, 2009 versus the three months ended March 31, 2008 resulted from an increase in material costs of \$465,000 and increase of use of subcontractor resulting in additional costs of \$88,000. For the six months ended March 31, 2009 sales increased \$2,370,000 with margin contraction of 11% resulting from increased material costs of \$1,103,000

or, direct labor costs increase of \$470,000 or from increase utilization of our in-market professional service personnel and an increase of \$175,000 or of subcontractor costs during the growth period.

We believe that the conditions compressing our gross profit margins during the three months and six months ended March 31, 2009 and 2008 were a result of the rapid sales ramp up and expansion. Going forward we expect gross profit margins to stabilize as service mix becomes fully developed and entrenched.

Salaries and benefits of approximately \$1,019,000 and \$1,126,000 for the three months ended March 31, 2009 and 2008 respectively, consisted of salaries and wages of approximately \$734,000 and \$757,000, commissions of \$54,000 and \$24,000, benefits of \$123,000 and \$143,000, payroll taxes of \$108,000 and \$138,000, and the company match of employee contributions to the 401k plan of \$0 and \$138,000. Non-cash share-based compensation of \$99,000 and \$285,000 related primarily to restricted stock that vested during the period is included in salaries and wages. For the six months ended March 31, 2009 and 2008 respectively, salaries and benefits of approximately \$1,923,000 and \$1,565,000, consisted of salaries and wages of approximately \$1,376,000 and \$1,150,000, commissions of \$113,000 and \$36,000, benefits of \$213,000 and \$165,000, payroll taxes of \$183,000 and \$151,000 and the company match of employee contributions to the 401k plan of \$37,000 and \$64,000. Non-cash share-based compensation of \$153,000 and \$0, related primarily to restricted stock that vested during the six months ended March 31, 2009 and 2008, is included in salaries and wages.

Selling, general and administrative expense for the three months ended March 31, 2009 and 2008 of approximately \$698,000 and \$593,000 include approximately \$151,000 and \$141,000 of accounting and professional fees, charge for bad debt expense of \$34,000 and \$0, approximately \$152,000 and \$20,000 of expense related to investor relations, \$40,000 and \$62,000 of rent expense, \$48,000 and \$30,000 of telecommunications related expenses, \$44,000 and \$47,000 of travel related expenses, and approximately \$31,000 and \$32,000 of expenses related to business insurance, \$45,000 and \$104,000 of miscellaneous outside services and \$80,000 and \$157,000 of other administrative services. Selling, general and administrative expense for the six months ended March 31, 2009 and 2008 of approximately \$1,222,000 and \$1,058,000 include approximately \$254,000 and \$218,000 of accounting and professional fees, charge for bad debt expense of \$71,000 and \$0, approximately \$224,000 and \$20,000 of expense related to investor relations, \$90,000 and \$68,000 of rent expense, \$102,000 and \$31,000 of telecommunications related expenses, \$89,000 and \$65,000 of travel related expenses, and approximately \$73,000 and \$37,000 of expenses related to business insurance, \$66,000 and \$104,000 of miscellaneous outside services and \$180,000 and \$515,000 of other administrative services.

Interest expense of approximately \$227,000 and \$115,000 for the three months ended March 31, 2009 and 2008, includes interest related to our Bridge Notes in addition to the notes payable issued in connection with our Phase I Acquisitions. Non-cash interest expense related to the accretion of the Bridge Notes to face value, warrants issued in exchange for certain financing arrangements, and the vesting of contingent bridge warrants was approximately \$52,000 and \$37,000 for the three months ended March 31, 2009 and 2008 and \$62,000 and \$0 related to warrants earned in connection with Put Right. For the six months ended March 31, 2009 and 2008 Interest expense of approximately \$440,000 and \$143,000, includes interest related to our Bridge Notes in addition to the notes payable issued in connection with our Phase I Acquisitions. Non-cash interest expense related to the accretion of the Bridge Notes to face value, warrants issued in exchange for certain financing arrangements, and the vesting of contingent bridge warrants was approximately \$278,000 and \$44,000.

Contractual dividends on our Series A, A-1, and B Preferred Stock amounted to approximately \$126,000 and \$0 for the three months ended March 31, 2009 and 2008. These amounts are included in accrued expenses.

as of March 31, 2009 and 2008. Contractual dividends on our Series A, A-1, and B Preferred Stock amounted to approximately \$251,000 and \$7,000 for the six months ended March 31, 2009 and 2008. These amounts are included in accrued expenses as of March 31, 2009 and 2008. Deemed dividends related to the beneficial conversion feature embedded in our Series A, A-1, and B Preferred Stock of approximately \$107,000 and \$3,000,000 was recognized during the three months ended March 31, 2009 and 2008. Deemed dividends related to the beneficial conversion feature embedded in our Series A, A-1, and B Preferred Stock of approximately \$187,000 and \$3,900,000 was recognized during the six months ended March 31, 2008.

Liquidity and Capital Resources

For the six months ended March 31, 2009 and 2008, net cash used in operating activities of approximately (\$1,965,000) and (\$1,313,000) consisted primarily of a net loss of approximately (\$2,516,000) and (\$2,131,000) and a net decrease in cash of approximately (\$882,000) and (\$26,000) due to increase in accounts receivables and other current assets. These amounts were offset by increases in cash due to an increase in account payable and accrued expenses of \$426,000 and \$313,000, customer deposits of approximately \$69,000 and \$(122,000). Finally, cash used in operations was impacted by non-cash depreciation and amortization of \$302,000 and \$202,000, non-cash interest of \$303,000 and \$44,000, share based payments of approximately \$248,000 and \$463,000 and other non-cash activities of \$79,000 and \$0.

For the six months ended March 31, 2009 and 2008, cash used in investing activities of approximately \$86,000 and \$2,185,000 consisted of purchases of fixed assets of \$86,000 and \$47,000 and acquisition of a business of \$0 and \$2,139,000.

For the six months ended March 31, 2009 and 2008, cash provided by financing activities of approximately \$1,962,000 and \$4,148,000 was derived primarily from approximately \$1,589,000 and \$0 of net proceeds from the sale of common stock (gross proceeds of approximately \$2,082,000 and \$0 less placement costs of approximately \$493,000 and \$0) raised in our common stock offerings, proceeds of \$300,000 and \$3,876,000 from conversion of preferred shares to common, net payments of \$(46,000) and \$(250,000) from lines of credit and \$0 and \$422,000 from proceeds of issuance of bridge notes, repayments of debt of approximately \$(298,000) and \$(495,000) and payments of capital lease obligations of \$(8,000) and \$(5,000). Additional proceeds from issuance of convertible notes of \$500,000 and \$0 with payment of referral finance costs of \$(75,000) and \$0 for the six months ended March 31, 2009 and 2008.

We incurred a net loss of approximately (\$1,440,000) and (\$4,272,000) for the three months ended March 31, 2009 and 2008 respectively. For the six months ended March 31, 2009 and 2008 respectively, we incurred a net loss of approximately (\$2,954,000) and (\$6,033,000). At March 31, 2009 and 2008, our accumulated deficit amounted to approximately (\$12,125,000) and (\$9,171,000). We had cash of \$38,000 and \$127,000 and a working capital deficit of approximately \$1,529,000 and \$1,125,000 at March 31, 2009 and 2008.

On October 29, November 17 and November 19, 2008, Beacon and Midian Properties, LLC, entered into short term credit facilities in the amounts of \$100,000, \$120,000 and \$70,000, respectively, the principal of which was due and payable to the holder within seven (7) days of issuance along with a 0.5% origination fee. Should the holder declare the notes in default, the notes shall bear interest at the rate of 18% per annum from the date of default until paid in full. The notes were not declared in default at any time and the principal has been paid back

from time to time from November 20, 2008 through January 28, 2009 when the amounts were paid back in full. On March 27, 2009, Beacon and Midian, entered into a short term credit facility in the amount of \$53,000, the principal of which was due and payable to the holder within seven (7) days of issuance along with a 1% origination fee. Should the holder declare the notes in default, the notes shall bear interest at the rate of 18% per annum from the date of default until paid in full. On November 12, 2008, Beacon engaged a registered broker-dealer in a private placement of Common Stock and Warrants to raise \$3.0 million of equity financing. As of May 12, 2009 we have raised \$3.0 million pursuant to this offering.

On January 7, 2009, we entered into a note payable with a principal amount of \$200,000 payable on or before December 31, 2009, bearing interest at 12% per annum with one of our directors. The director concurrently authorized us to issue 300 shares of preferred stock in exchange for this note and an additional \$100,000 note issued prior to December 31, 2008. We completed our administrative issuance of the Series B Preferred Stock on February 16, 2009, at which time we and the director agreed that we shall be permitted, but not required to redeem these shares at a 1% per month premium beginning 30 days from the date of their issuance at our discretion.

On January 9, 2009, we entered into an equity financing arrangement with one of our directors that provided up to \$2.2 million of additional funding, the terms of which provide for compensation of a one-time grant of warrants to purchase 100,000 shares of common stock at \$1.00 per share and ongoing grants of warrants to purchase 33,333 shares of common stock at \$1.00 per share each month that the financing arrangement is in effect. The warrants have a five year term. The commitment will be reduced on a dollar for dollar basis as we raise additional equity capital in private offerings, described above, and terminating upon completion of equity financing of \$2.2 million, upon mutual agreement or on January 1, 2010. On May 13, 2009, the director agreed to increase the equity financing arrangement to \$1.8 million available in exchange for a continuation of the ongoing grants of warrants to purchase 33,333 shares of common stock at \$1.00 per share each month which is all available as of the day of filing of this Quarterly Report on Form 10-Q. On January 22, 2009, Beacon entered into convertible notes payable with a group of private investors (the "Notes") facilitated by a broker/dealer. Proceeds of the Notes were \$500,000 in the aggregate of which the broker/dealer received a cash commission of \$50,000 and a non-accountable expense reimbursement of \$25,000. The net proceeds were used to pay off certain short term debts with the balance used as working capital. The Notes have a maturity date of July 21, 2009 and bear interest at a fixed annual rate of 12.5% due monthly. The Notes can be extended by Beacon to January 21, 2010 and, upon extension, will bear interest at a fixed annual rate of 15% from the original maturity date to the extended maturity date due monthly along with principal payments of 16.67% of the principal due monthly from the original maturity date through the extended maturity date until paid in full. The Notes can be prepaid at any time on or after March 21, 2009 in whole or in part upon 30 days prior written notice to the holders without penalty. The holder may convert the Notes into shares of Beacon Common Stock, par value \$0.001, at the rate of \$0.75 per share in minimum increments of \$5,000. The holder received a five-year warrant to purchase one share of Beacon Common Stock at a purchase price of \$1.00 per share per \$10 of Note balance. The Notes contain certain provisions in the event of default that could result in acceleration of payment of the entire balance including accrued and unpaid interest. Acceleration of the Note in the event of default would also result in the interest rate increasing by 0.4166% per event.

As widely reported, the financial markets have been experiencing extreme disruption in recent months, including, among other things, extreme volatility in securities prices, severely diminished liquidity and credit

availability, rating downgrades of certain investments and declining valuations of others. Among other risks we face, the current tightening of credit in financial markets may adversely affect our ability to obtain financing in the future, including, if necessary, to fund our organic growth strategy or a strategic acquisition, and/or ability to refinance our debt as it comes due.

We believe that our currently available cash, the proceeds of our equity financing activities, the equity financing arrangement, further debt financing and refinancing, and funds we expect to generate from operations will enable us to effectively operate our business and pay our debt obligations as they become due within the next twelve months through April 1, 2010. We require additional capital in order to execute our current business plan. If we are unable to raise additional capital, we will be required to take various measures to conserve liquidity, which could include, but not necessarily be limited to, curtailing our business development activities, suspending the pursuit of our business plan, and controlling overhead expenses. We cannot provide any assurance that we will raise additional capital. We have not secured any commitments for new financing at this time, nor can we provide any assurance that new financing will be available to us on acceptable terms, if at all.

Off-Balance Sheet Arrangements

We have four operating lease commitments for real estate used for office space and production facilities.

Contractual Obligations as of March 31, 2009

The following is a summary of our contractual obligations as of March 31, 2009:

Contractual Obligations	Total	Payment Due by Period			
		Year 1	Years 2-3	Years 4-5	Thereafter
Long-term debt obligations	\$ 2,737,298	\$ 1,124,226	\$ 1,509,004	\$ 104,068	
Interest obligations (1)	\$ 203,017	69,265	114,896	18,856	
Operating lease obligations (2)	\$ 210,407	150,605	59,802		
	<u>\$ 3,150,722</u>	<u>\$ 1,344,096</u>	<u>\$ 1,683,702</u>	<u>\$ 122,924</u>	<u>\$ —</u>

- (1) Interest obligations assume Prime Rate of 3.25% at March 31, 2009. Interest rate obligations are presented through the maturity dates of each component of long-term debt.
- (2) Operating lease obligations represent payment obligations under non- cancelable lease agreements classified as operating leases and disclosed pursuant to Statement of Financial Accounting Standards No. 13 "Accounting for Leases," as may be modified or supplemented. These amounts are not recorded as liabilities of the current balance sheet date.

Dividends on Series A and A-1 Preferred Stock are payable quarterly at an annual rate of 10% and Series B Preferred Stock is payable quarterly at an annual rate of 6%, in cash or the issuance of additional shares of Series A, A-1, and B Preferred Stock, at our option. If we were to fund dividends accruing during the twelve months ended March 31, 2010 in cash, the total obligation would be \$504,000 based on the number of shares of Series A, A-1 and B Preferred Stock outstanding as of March 31, 2009.

We currently anticipate the cash requirements for capital expenditures, operating lease commitments and working capital will likely be funded with our existing fund sources and cash provided from operating

activities. In the aggregate, total capital expenditures are not expected to exceed \$750,000 for the twelve months ended March 31, 2010 and can be curtailed based on actual results of operations.

Working Capital

As of March 31, 2009, our current liabilities exceed current assets by approximately \$1,529,000. Certain vendors have agreed to defer payment or agreed to payment plans. Our working capital deficit has decreased by approximately \$151,000 and increased approximately \$403,000 during the three and six months ended March 31, 2009. We can give no assurance that we will continue to be successful in our efforts to negotiate favorable terms with our vendors.

Client Base

Through the Phase I Acquisitions, Beacon acquired a client base that consisted of approximately 4,000 customers, which were predominantly MBEs with 25-2,500 end users each, as well as approximately 50 larger customers. We expect that most of our revenue will be derived from our I³MAC Services offering.

Competitors

Beacon has numerous competitors in each one of its four service areas, many of which are substantially better capitalized, have more employees, have a longer operating history and are better known in the industry. However, management is not aware of any direct competitor in the middle-market service space that can provide all of these services without significant outsourcing or reselling, although IBM Global and others do present these services by relying upon outside consultants. Beacon believes that its integration of these services, particularly of its systems and software design and engineering capabilities, provides a distinct competitive advantage.

Technology & equipment procurement competitors include: AT&T, Qwest, Level 3, Broadwing, and Covad. Application development/support competitors include: Trigent, Inventa Technologies, and AAlpha. Competitors specific to the interconnect services include: BellSouth, Vonage, and Packet8. Competitors with respect to data/systems integration services include: Cisco, Datacomm Solutions, Dell, and Sun Microsystems.

Employees

Beacon currently employs approximately 80 people in the Columbus, OH, Louisville, KY, and Cincinnati, OH markets. None of Beacon's employees is subject to a collective bargaining agreement.

Facilities

Beacon currently maintains its offices at 1961 Bishop Lane, Louisville, KY 40218 and our telephone number is (502) 657-3500.

Beacon leases office space in Louisville, Kentucky, Cincinnati, Ohio, and Columbus, Ohio for amounts that are not deemed to be material.

Certain Relationships and Related Party Transactions

The Company has obtained insurance through an agency owned by one of its founding stockholders. Insurance expense paid through the agency for the three and six months ended March 31, 2009 was approximately \$42,000 and \$65,000, respectively, and is partly deferred and partly included in selling, general and administrative expense in the accompanying condensed consolidated statement of operations.

On May 15, 2008, subsequently amended on August 19, 2008, we entered into an equity financing arrangement with one of our directors that provided up to \$3,000,000 of additional funding, the terms of which provided for issuance of warrants to purchase 33,333 shares of common stock at \$1.00 per share per month for the period the financing arrangement is in effect. The warrants have a five-year term. The equity financing arrangement expired on December 31, 2008. Accordingly, we recognized \$82,166 of interest expense for the three and six months ended March 31, 2009 based on the fair value of the warrants as they were earned. The fair values were calculated using the Black-Scholes option pricing model with the following assumptions:

Date Earned	Quantity Earned	Expected Life (days)	Strike Price	Fair Value of Common Stock	Volatility Rate	Dividend Yield	Risk-Free Interest Rate	Value per Warrant	Charge to Interest Expense
10/15/2008	33,333	1,825	\$ 1.00	\$ 1.20	66.34%	0%	2.90%	\$ 0.74	\$ 24,666
11/15/2008	33,333	1,825	\$ 1.00	\$ 0.85	66.34%	0%	2.33%	\$ 0.45	\$ 15,000
12/15/2008	33,333	1,825	\$ 1.00	\$ 1.52	66.34%	0%	1.50%	\$ 0.99	\$ 33,000
12/31/2008	16,667	1,825	\$ 1.00	\$ 1.01	66.34%	0%	1.55%	\$ 0.57	\$ 9,500

On January 9, 2009, we entered into an equity financing arrangement with one of our directors that provided up to \$2.2 million of additional funding, the terms of which provide for compensation of a one-time grant of warrants to purchase 100,000 shares of common stock at \$1.00 per share and ongoing grants of warrants to purchase 33,333 shares of common stock at \$1.00 per share each month that the financing arrangement is in effect. The warrants have a five year term. The commitment will be reduced on a dollar for dollar basis as we raise additional equity capital in private offerings, described above, and terminating upon completion of equity financing of \$2.2 million, upon mutual agreement or on January 1, 2010. As of May 8, 2009, approximately \$330,000 was available under this financing arrangement. We recognized \$62,133 of interest expense for the three and six months ended March 31, 2009 based on the fair value of the warrants as they were earned. The fair values were calculated using the Black-Scholes option pricing model with the following assumptions:

Date Earned	Quantity Earned	Expected Life (days)	Strike Price	Fair Value of Common Stock	Volatility Rate	Dividend Yield	Risk-Free Interest Rate	Value per Warrant	Charge to Interest Expense
1/9/2009	100,000	1,825	\$ 1.00	\$ 0.80	66.34%	0%	1.51%	\$ 0.41	\$ 41,000
2/9/2009	33,333	1,825	\$ 1.00	\$ 0.80	66.34%	0%	1.99%	\$ 0.41	\$ 13,667
3/9/2009	33,333	1,825	\$ 1.00	\$ 0.54	66.34%	0%	1.90%	\$ 0.23	\$ 7,667

ITEM 4(T). CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our filings under the Exchange Act is recorded, processed, summarized and reported within the periods specified in the rules and forms of the SEC. This information is accumulated and communicated to our executive officers to allow timely decisions regarding required disclosure. As of March 31, 2009, our Chief Executive Officer, who acts in the capacity of principal executive officer and our Chief Accounting Officer who acts in the capacity of principal financial officer, have evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, our Chief Executive Officer and the Chief Financial Officer have concluded that our disclosure controls and procedures were not effective as of March 31, 2009, based on their evaluation of these controls and procedures required by paragraph (b) of Exchange Act Rules 13a-15 or 15d-15.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS

Disclosure controls are designed with the objective of ensuring that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Accounting Officer, as appropriate, to allow timely decisions regarding required disclosure. Internal controls are procedures which are designed with the objective of providing reasonable assurance that our transactions are properly authorized, recorded and reported and our assets are safeguarded against unauthorized or improper use, to permit the preparation of our financial statements in conformity with generally accepted accounting principles, including all applicable SEC regulations.

As of September 30, 2008, we had identified certain matters that constituted material weaknesses in our internal controls over financial reporting. Although we have strengthened and unified our internal controls, we continue to improve our controls and eliminate material weaknesses including inadequate internal accounting information systems and limited qualified accounting staff. Our systems and personnel were insufficient to support the complexity of our financial reporting requirements. Since September 30, 2008, we have taken certain steps to correct these material weaknesses that include undertaking a review of our systems and engaging a consultant to assist in the upgrade of our accounting systems and implementation of additional controls. We have hired an additional accounting resource to assist in completion of our internal control matrix and further strengthen our controls. Although we believe that these steps will result in significant improvements to our internal controls and expect to correct our material weaknesses, additional time is still required to fully document our systems, implement control procedures and test their operating effectiveness.

Specifically, we have engaged a firm to assist us with migrating from our current unified accounting system to Microsoft Dynamics GP including the modules that assist with Sarbanes-Oxley compliance. Additionally, we have implemented a control matrix and software to identify our critical internal accounting controls and measure compliance on a month to month basis to ensure our controls are effective. In addition, we have implemented further controls to aid and improve our inventory systems to ensure they are operating effectively and added controls over revenue recognition to ensure appropriate compliance with current accounting standards. Finally, we have hired an additional accounting resource, bringing the number of Certified Public Accountants on our staff to three, to assist in the day to day accounting functions. We believe that our internal controls risks are partially mitigated by the fact that our Chief Executive Officer and Chief Accounting Officer review and approve substantially all of our major transactions and we have, when needed, hired outside experts to assist us with implementing complex accounting principles. We believe that our weaknesses in internal control over financial reporting and our disclosure controls relate primarily to the fact that we are an emerging business with limited personnel. Our Chief Accounting Officer was our only employee with SEC reporting experience as of the date of this Quarterly Report on Form 10-Q.

Changes in Internal Control Over Financial Reporting

Except as discussed above, there were no changes in our internal control over financial reporting during our last fiscal quarter that materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None.

ITEM 5. OTHER INFORMATION.

Executive Employment Agreements

On May 8, 2009, our Compensation Committee, Board of Directors and our executives agreed in principle to new employment agreements, each of which is described below.

Bruce Widener, Chairman of the Board and Chief Executive Officer, was granted a base salary of \$240,000 per year, retroactive to January 1, 2009, with a bonus potential of an additional \$240,000 based on achievement of an increase in EBITDA of \$5.0 million for the fiscal year ended September 30, 2009 as compared to the fiscal year ended September 30, 2008, measured as 24% of Fiscal 2009 EBITDA. In addition, the agreement includes a provision for three years severance pay for termination without cause, upon a change in control or if the executive resigns for good reason, including 50% of all unearned bonus opportunity for the remaining term of the agreement, immediate vesting of all unearned options, outplacement services and office expenses of up to \$2,000 per month during the severance period. Finally, the agreement provides a grant of options to purchase up to 1.0 million shares of our common stock at an exercise price of \$1.19 per share which vest in equal amounts over a three year period on the anniversary of the grant. The term of the agreement is 36 months and it provides for a minimum annual 5% cost of living adjustment.

Richard Mills, President, was granted a base salary of \$150,000 per year with a bonus potential of \$80,000 based on achievement of an increase in EBITDA of \$5.0 million for the fiscal year ended September 30, 2009 as compared to the fiscal year ended September 30, 2008, measured as 8% of Fiscal 2009 EBITDA. In addition, the agreement provides for commissions of approximately \$120,000 based on the achievement of specific revenue targets and an expense allowance of \$12,000 for entertaining clients and corporate functions. Further, the agreement includes a provision for 12 months severance pay for termination without cause or if the executive resigns for good reason. Finally, the agreement provides a grant of options to purchase up to 1.0 million shares of our common stock at an exercise price of \$1.19 per share which vest in equal amounts over a three year period on the anniversary of the grant.

Kenneth Kerr, Chief Operating Officer, was granted a base salary of \$150,000 per year with a bonus potential of an additional \$150,000 based on achievement of an increase in EBITDA of \$5.0 million for the fiscal year ended September 30, 2009 as compared to the fiscal year ended September 30, 2008,

measured as 15% of Fiscal 2009 EBITDA. In addition, the agreement includes a provision for 12 months severance pay for termination without cause or if the executive resigns for good reason.

Robert Mohr, Chief Accounting Officer, Secretary and Treasurer, was granted a base salary of \$150,000 per year with a bonus potential of an additional \$60,000 based on achievement of an increase in EBITDA of \$5.0 million for the fiscal year ended September 30, 2009 as compared to the fiscal year ended September 30, 2008, measured as 6% of Fiscal 2009 EBITDA. In addition, the agreement includes a provision for 12 months severance pay for termination without cause or if the executive resigns for good reason. Finally, the agreement provides a grant of options to purchase up to 250,000 shares of our common stock at an exercise price of \$1.19 per share which vest in equal amounts over a three year period on the anniversary of the grant.

ITEM 6. EXHIBITS

Part I Exhibits

10.1 Beacon Solutions 2008 Long Term Incentive Plan.

31.1 Certification of Principal Executive Officer, pursuant to Rules 13a-14(a) of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Principal Financial Officer, pursuant to Rules 13a-14(a) of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Principal Executive Officer, pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

32.2 Certification of Principal Financial Officer, pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

** - This certification shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section, nor shall it be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.*

SIGNATURES

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

Beacon Enterprise Solutions Group, Inc.

Date: May 13, 2009

By: */s/ Bruce Widener*

Bruce Widener
Chief Executive Officer and
Chairman of the Board of Directors

and

Date: May 13, 2009

By: */s/ Robert Mohr*

Robert Mohr
Principal Financial Officer

BEACON SOLUTIONS
2008 LONG TERM INCENTIVE PLAN

Section 1. Establishment and Purpose.

Beacon Enterprise Solutions Group, Inc., a Nevada corporation (the “Company”), hereby establishes this long term incentive plan to be named the Beacon Solutions 2008 Long Term Incentive Plan for certain employees of the Group (as defined below) and non-employee directors of the Company. The purpose of the Plan is to encourage certain employees of the Group and non-employee directors of the Company to acquire Stock of the Company or to receive monetary payments based on the value of such stock or based upon achieving certain goals on a basis mutually advantageous to such employees and non-employee directors and the Company and thus provide an incentive for continuation of the efforts of employees and non-employee directors for the success of the Company and for continuity of service.

Section 2. Definitions.

Whenever used herein, the following terms shall have the respective meanings set forth below:

- (a) **Act** means the Securities Exchange Act of 1934, as amended from time to time.
- (b) **Award** means any Option, Stock Appreciation Right, Restricted Stock or Performance Award granted under the Plan.
- (c) **Base Price** means, in the case of an Option or a Stock Appreciation Right, 100% of the Fair Market Value of a share of Stock on the date of grant of such option or right.
- (d) **Board** means the Board of Directors of the Company.
- (e) **Cause** means with respect to a Participant’s Termination of Employment, the following: (a) in the case where there is no employment agreement, consulting agreement, change in control agreement or similar agreement in effect between the Group and the Participant at the time of the grant of the Award (or where there is such an agreement but it does not define “cause” (or words of like import)), termination due to a Participant’s insubordination, dishonesty, fraud, incompetence, moral turpitude, willful misconduct, refusal to perform his or her duties or responsibilities for any reason other than illness or incapacity or materially unsatisfactory performance of his or her duties for the Group, as determined by the Committee in its sole discretion; or (b) in the case where there is an employment agreement, consulting agreement, change in control agreement or similar agreement in effect between the Group and the Participant at the time of the grant of the Award that defines “cause” (or

words of like import), “cause” as defined under such agreement; provided, however, that with regard to any agreement under which the definition of “cause” only applies on occurrence of a change in control, such definition of “cause” shall not apply until a change in control actually takes place and then only with regard to a termination thereafter. With respect to a Participant’s Termination of Directorship, “cause” means an act or failure to act that constitutes cause for removal of a director under applicable Nevada law.

- (f) **Change of Control** is defined in Section 14.
- (g) **Code** means the Internal Revenue Code of 1986, as amended and in effect from time to time.
- (h) **Committee** means a committee or subcommittee of the Board that shall administer the Plan, which committee or subcommittee shall consist of no fewer than two members, each of whom shall be a “nonemployee director” within the meaning of Rule 16b-3 (or any successor rule or regulation) promulgated under the Act, an “outside director” within the meaning of Section 162(m)(4)(C)(i) of the Code and to the extent required by applicable stock exchange rules, “independent” as defined under applicable stock exchange rules. With respect to the application of the Plan to Non-Employee Directors, the Committee shall refer to the Board. Notwithstanding the foregoing, if, and to the extent that no Committee exists that has the authority to administer the Plan, the functions of the Committee shall be exercised by the Board and all references herein to the Committee shall be deemed to be references to the Board.
- (i) **Covered Employee** means a Participant who, as of the date of vesting and/or payout of an Award, as applicable, is one of the group of “covered employees,” as defined in the regulations promulgated under Section 162(m) of the Code, or any successor statute.
- (j) **Disability** means permanent and total disability as defined in Section 22(e)(3) of the Code, as determined by the Committee in good faith, upon receipt of and in reliance on sufficient competent medical advice. Notwithstanding the foregoing, for Awards that are subject to Section 409A of the Code, Disability shall mean that a Participant is disabled under Section 409A(a)(2)(C)(i) of the Code.
- (k) **Employee** means a salaried employee (including officers and directors who are also employees) of any member of the Group.
- (l) **Fair Market Value** means, for any particular date, (i) for any period during which the Stock shall not be listed for trading on a national securities exchange, but when prices for the Stock shall be reported on an automated quotation system sponsored by the National Association of Securities Dealers, Inc., the last transaction price per share as quoted by such system, (ii) for any period during which the Stock shall be listed for

trading on a national securities exchange, the closing price per share of Stock on such exchange as of the close of such trading day; or (iii) if the Common Stock is not readily tradable on an established securities market as determined under Section 409A of the Code or any regulations or other guidance promulgated thereunder, a value determined by the reasonable application of a reasonable valuation method in accordance with Section 409A of the Code or any regulations or other guidance promulgated thereunder. If the Fair Market Value is to be determined as of a day when the securities markets are not open, the Fair Market Value on that day shall be the Fair Market Value on the preceding day when the markets were open.

- (m) **Group** means the Company, its Parent and every Subsidiary of the Company.
- (n) **Non-Employee Director** means a director of the Company who is not an active employee of the Group.
- (o) **Option** means the right to purchase Stock at the Base Price for a specified period of time. For purposes of the Plan, an Option may be an “Incentive Stock Option” within the meaning of Section 422 of the Code, or a “Nonqualified Stock Option.”
- (p) **Parent** means any parent corporation of the Company within the meaning of Section 424(e) of the Code.
- (q) **Participant** means any Employee or Non-Employee Director designated by the Committee to participate in the Plan.
- (r) **Performance Award** means a right to receive awards of Stock and such other awards (including awards of cash) that are valued in whole or in part by reference to, or are payable in or otherwise based on, Stock or performance during a Performance Period.
- (s) **Performance-Based Exception** means the performance-based exception from the tax deductibility limitations of Section 162(m) of the Code.
- (t) **Performance Period** means a period of not more than ten years established by the Committee during which certain performance goals set by the Committee are to be met.
- (u) **Period of Restriction** means the period during which a grant of Restricted Stock is restricted pursuant to Section 11 of the Plan.
- (v) **Reporting Person** means a person subject to Section 16 of the Act.
- (w) **Restricted Stock** means Stock granted pursuant to Section 11 of the Plan, but a share of such Stock shall cease to be Restricted Stock when the

conditions to and limitations on transferability under Section 11 have been satisfied or have expired, respectively.

- (x) **Retirement** means a Termination of Employment without Cause at or after age 65 or such earlier date after age 50 as may be approved by the Committee with regard to such Participant and as stated in the applicable Award Agreement. With respect to a Participant's Termination of Directorship, Retirement means the failure to stand for reelection (other than a Termination for Cause) on or after a Participant has attained age 65 or such earlier date after age 50 as may be approved by the Board with regard to such Participant.
- (y) **Stock** means the authorized and unissued shares of the Company's common stock, par value \$.001 per share.
- (z) **Stock Appreciation Right** or **SAR** means the right to receive cash or a number of shares of Stock representing the Fair Market Value of a share of Stock at the date of exercise over the Base Price. In the case of a Stock Appreciation Right which is granted in conjunction with an Option, the Base Price shall be the Option exercise price.
- (aa) **Subsidiary** means a subsidiary corporation as defined in Section 424(f) of the Code.
- (bb) **Ten Percent Stockholder** means a person owning stock possessing more than 10% of the total combined voting power of all classes of stock of the Company, its Subsidiaries or its Parent.
- (cc) **Termination of Directorship** means that the Non-Employee Director has ceased to be a director of the Company. In the event that a Non-Employee Director becomes an Employee or a consultant upon the termination of his or her directorship, no Termination of Directorship shall be deemed to occur until such time as such Non-Employee Director is no longer an Employee, consultant or Non-Employee Director.
- (dd) **Termination of Employment** means a termination of employment (for reasons other than a military or personal leave of absence granted by the Company) of a Participant from the Group. In the event that an Employee becomes a consultant or a Non-Employee Director upon the termination of his or her employment, no Termination of Employment shall be deemed to occur until such time as such Employee is no longer an Employee, a consultant or a Non-Employee Director. Notwithstanding the foregoing, the Committee may otherwise define Termination of Employment in the Award agreement.
- (ee) **Window Period** means the third to the twelfth business day following the release for publication of the Company's quarterly or annual earnings report.

Section 3. Administration.

The Plan will be administered by the Committee. The determinations of the Committee shall be made in accordance with their judgment as to the best interests of the Company and its stockholders and in accordance with the purpose of the Plan. A majority of members of the Committee shall constitute a quorum, and all determinations of the Committee shall be made by a majority of its members. Any determination of the Committee under the Plan may be made without notice or meeting of the Committee, by a writing signed by a majority of the Committee members. Determinations, interpretations, or other actions made or taken by the Committee pursuant to the provisions of the Plan shall be final and binding and conclusive for all purposes and upon all persons whomsoever.

Subject to compliance with Code Section 409A, the Committee may offer to buy out an Award previously granted, based on such terms and conditions as the Committee shall establish and communicate to the Participant at the time such offer is made.

The Committee may designate employees of the Group and professional advisors to assist the Committee in the administration of the Plan and, to the extent permitted by applicable law and applicable exchange rules, may grant authority to officers to grant Awards and/or execute agreements or other documents on behalf of the Committee.

Section 4. Shares Reserved Under the Plan.

There is hereby reserved for issuance under the Plan an aggregate of 1,000,000 shares of Stock (subject to any increase or decrease pursuant to Section 13); provided, however, that notwithstanding the foregoing, no more than 200,000 shares of Stock (subject to any increase or decrease pursuant to Section 13) whether subject to Options, Stock Appreciation Rights, Awards of Restricted Stock or Performance Awards denominated in shares of Stock may be granted in any one fiscal year to any one single Participant and the maximum aggregate payout (determined as of the end of the applicable performance period) with respect to Awards of Performance Shares granted in any one fiscal year to any one single Participant shall not exceed \$500,000 in value.

Stock underlying outstanding Options, Stock Appreciation Rights or Performance Awards will be counted against the Plan maximum while such Options or Performance Awards are outstanding. Shares underlying expired, canceled or forfeited Awards (except Restricted Stock) may be added back to the Plan maximum, subject to the provisions of Section 10. When the exercise price of an Option is paid by delivery of shares of Stock, the number of shares available for issuance under the Plan shall continue to be reduced by the gross (rather than the net) number of shares issued pursuant to such exercise, regardless of the number of shares surrendered in payment. Restricted Stock issued pursuant to the Plan will be counted against the Plan maximum while outstanding even while subject to restrictions and following forfeiture.

If any Award is cancelled (or is amended in a way that is treated as a cancellation), the shares related to the cancelled Award shall count against the above maximum limitations for the applicable fiscal year.

Section 5. Participants.

Participants will consist of such Employees of the Group as the Committee in its sole discretion determines have a major impact on the success and future growth and profitability of the Company and Non-Employee Directors. Designation of a Participant in any year shall not require the Committee to designate such person to receive an Award in any other year or to receive the same type or amount of Award as granted to the Participant in any other year or as granted to any other Participant in any year. The Committee shall consider such factors as it deems pertinent in selecting Participants and in determining the type and amount of their respective Awards. Only Employees of the Group may be granted Incentive Stock Options under the Plan.

Section 6. Types of Awards.

The following Awards may be granted under the Plan: (a) Incentive Stock Options; (b) Nonqualified Stock Options; (c) Stock Appreciation Rights; (d) Restricted Stock; and (e) Performance Awards; all as described below. Except as specifically limited herein, the Committee shall have complete discretion in determining the type and number of Awards to be granted to any Participant, and the terms and conditions which attach to each Award, which terms and conditions need not be uniform as between different participants. All Awards shall be evidenced in writing and shall be subject to the terms and conditions of the Plan.

Section 7. Date of Granting Awards.

All Awards granted under the Plan shall be granted as of an Award date, as determined by the Committee. Promptly after each Award date, the Company shall notify the Participant of the grant of the Award, and shall deliver to the Participant an Award agreement, duly executed by and on behalf of the Company, with the request that the Participant execute and return the Award agreement within thirty days (or such other period determined by the Committee) after the date of delivery by the Company of the Award agreement to the Participant. If the Participant shall fail to execute and return the written Award agreement within such period, his or her Award shall be automatically terminated, except that if the Participant dies within such period such Award agreement shall be effective notwithstanding the fact that it has not been signed prior to death.

Section 8. Incentive Stock Options.

Incentive Stock Options shall consist of options to purchase shares of Stock at purchase prices not less than 100% (or, in the case of an Incentive Stock Option granted to a Ten Percent Stockholder, 110%) of the Fair Market Value of a share of Stock on the date of grant of the Incentive Stock Option. The purchase price may be paid by check or, in the discretion of the Committee, by the delivery of shares of Stock then owned by the Participant, by cashless exercise or such other method acceptable to the Committee. Unless otherwise provided in the Award agreement, Incentive Stock Options will be exercisable not earlier than six months and not later than ten years (or, five years in the case of an Incentive Stock Option granted to a Ten Percent Stockholder) after the date

they are granted and, except as provided below, will terminate three months after Termination of Employment for any reason other than death or Disability. Unless otherwise provided in the Award agreement, in the event Termination of Employment occurs as a result of death or Disability, the vested portion of the Option will be exercisable for 12 months after such termination. Unless otherwise provided in the Award agreement, if the Participant dies within 12 months after Termination of Employment by reason of Disability, then the period of exercise following death with respect to then vested Options shall be the remainder of the 12-month period, or three months, whichever is longer. Unless otherwise provided in the Award agreement, if the Participant dies within three months after Termination of Employment for any other reason, then the period of exercise following death with respect to then vested Options shall be three months. Notwithstanding anything herein to the contrary, in no event shall any Incentive Stock Option be exercised more than ten years after its grant (or, five years in the case of an Incentive Stock Option granted to a Ten Percent Stockholder). The aggregate Fair Market Value (determined as of the time an Option is granted) of the Stock with respect to which an Incentive Stock Option is exercisable for the first time during any calendar year (under all option plans of the Group) shall not exceed \$100,000 per Participant. Unless provided otherwise in the Award agreement, Incentive Stock Options that are not exercisable at the time of Termination of Employment for any reason shall immediately terminate. Unless provided otherwise in the Award agreement, upon a Participant's Termination of Employment for Cause all outstanding Incentive Stock Options (whether vested or unvested) shall immediately terminate.

Section 9. Nonqualified Stock Options.

Nonqualified Stock Options shall consist of nonqualified options to purchase shares of Stock at purchase prices not less than 100% of the Fair Market Value of a share of Stock on the date of grant of the Nonqualified Stock Option. The purchase price may be paid by check or, in the discretion of the Committee, by the delivery of shares of Stock then owned by the Participant, by cashless exercise or such other method acceptable to the Committee. Notwithstanding anything herein to the contrary, Nonqualified Stock Options will be exercisable as provided in the Award agreement except that such options will not be exercisable later than ten years after the date they are granted. Unless provided otherwise in the Award agreement, Nonqualified Stock Options that are not exercisable at the time of Termination of Employment or Termination of Directorship for any reason shall immediately terminate. Unless provided otherwise in the Award agreement, upon a Participant's Termination of Employment or Termination of Directorship for Cause all outstanding Nonqualified Stock Options (whether vested or unvested) shall immediately terminate. Unless provided otherwise in the Award agreement, Nonqualified Stock Options that are exercisable at the time of Termination of Employment or Termination of Directorship shall terminate three months after Termination of Employment or Termination of Directorship for any reason other than death, Retirement or Disability. In the event Termination of Employment or Termination of Directorship occurs as a result of death, Retirement or Disability, the vested portion of the Nonqualified Stock Options will remain exercisable for 12 months after such termination unless provided otherwise in the Award agreement. If the Participant dies during any post-termination exercise period, then the period of exercise following death shall be the remainder of the applicable post-termination exercise period, or three months,

whichever is longer unless provided otherwise in the Award agreement but not longer than the end of the original term of the Option. The Committee shall have the right to determine at the time the Option is granted whether shares issued upon exercise of a Nonqualified Stock Option shall be subject to restrictions, and if so, the nature of the restrictions.

Section 10. Stock Appreciation Rights.

Stock Appreciation Rights may be granted which, at the discretion of the Committee, may be exercised (1) in lieu of exercise of an Option, (2) in conjunction with the exercise of an Option, (3) upon lapse of an Option, (4) independent of an Option, or (5) each of the above in connection with a previously awarded Option under the Plan. SARs issued to Reporting Persons shall be held for at least six months prior to exercise. If the Option referred to in (1), (2) or (3) above qualified as an Incentive Stock Option pursuant to Section 422 of the Code, the related SAR shall comply with the applicable provisions of the Code and the regulations issued thereunder. At the time of grant, the Committee may impose such conditions on exercise of an SAR (including, without limitation, the right of the Committee to limit the time of exercise to specified periods) as may be required to satisfy the requirements of Rule 16b-3 (or any successor rule), under the Act. Settlement for SARs shall be made in Stock. Unless otherwise provided in the Award agreement, the following will apply upon exercise of an SAR:

- (a) Exercise of SARs in Lieu of Exercise of Options. SARs exercisable in lieu of Options may be exercised for all or part of the shares of Stock subject to the related Option upon the exercise of the right to exercise an equivalent number of Options. A SAR may be exercised only with respect to the shares of Stock for which its related Option is then exercisable. Upon exercise of a SAR in lieu of exercise of an Option, shares of Stock equal to the number of SARs exercised shall no longer be available for Awards under the Plan.
- (b) Exercise of SARs in Conjunction with Exercise of Options. SARs exercisable in conjunction with the exercise of Options shall be deemed to be exercised upon the exercise of the related Options, and shares of Stock equal to the sum of the number of shares acquired by exercise of the Option plus the number of SARs exercised shall no longer be available for Awards under the Plan.
- (c) Exercise of SARs Upon Lapse of Options. SARs exercisable upon lapse of Options shall be deemed to have been exercised upon the lapse of the related Options as to the number of shares of Stock subject to the Options. Shares of Stock equal to the number of SARs deemed to have been exercised shall not be available again for Awards under the Plan.
- (d) Exercise of SARs Independent of Options. SARs exercisable independent of Options may be exercised upon whatever terms and conditions the Committee, in its sole discretion, imposes upon the SARs, and shares of Stock equal to the number of SARs exercised shall no longer be available

for Awards under the Plan. The exercise price of such a SAR shall be equal to the Fair Market Value of the Stock on the date of grant.

Section 11. Restricted Stock.

Restricted Stock shall consist of Stock issued or transferred under the Plan (other than upon exercise of Options or as Performance Awards) or as a bonus. Unless otherwise provided in the Award agreement, in the case of any Restricted Stock:

- (a) The purchase price, if any, will be determined by the Committee. The purchase price for shares of Restricted Stock may be zero to the extent permitted by applicable law, and, to the extent not so permitted, such purchase price may not be less than par value.
- (b) Restricted Stock may be subject to (i) restrictions on the sale or other disposition thereof, provided, however, that Restricted Stock granted to a Reporting Person shall, in addition to any other restrictions thereon, not be sold or disposed of for not less than six (6) months following the date of grant; (ii) rights of the Company to reacquire such Restricted Stock at the purchase price, if any, originally paid therefor upon a Termination of Employment or Termination of Directorship within specified periods, (iii) representation by the Employee or Non-Employee Director that he or she intends to acquire Restricted Stock for investment and not for resale, and (iv) such other restrictions, conditions and terms as the Committee deems appropriate.
- (c) The Participant shall have all of the rights of a holder of Stock during the Period of Restriction, including, without limitation, the right to vote the Stock, the right to receive any dividends, and, subject to and conditioned upon the full vesting of shares of Restricted Stock, the right to tender such shares.
- (d) The Committee shall determine whether Restricted Stock is to be delivered to the Participant with an appropriate legend imprinted on the certificate or if the shares are to be deposited in escrow pending removal of the restrictions. If and when the Period of Restriction expires without a prior forfeiture of the Restricted Stock subject to such Period of Restriction, the certificates for such shares shall be delivered to the Participant. All legends shall be removed from said certificates at the time of delivery to the Participant except as otherwise required by applicable law.
- (e) The Committee may require that any stock certificates evidencing Restricted Stock be held in custody by the Company until the restrictions thereon shall have lapsed, and that, as a condition of any Award of Restricted Stock, the Participant shall have delivered a duly signed stock power, endorsed in blank, relating to the Stock covered by such Award.

- (f) The Committee may condition the grant or vesting of Restricted Stock upon the attainment of specified performance goals (including the goals set forth on Exhibit A) as the Committee may determine in its sole discretion, including to comply with the requirements of Section 162(m) of the Code. Unless and until the Committee determines that Restricted Stock granted to a Covered Employee need not comply with the Performance-Based Exception, one or more of the performance goals set forth on Exhibit A shall apply.
- (g) The Participant shall not be permitted to transfer shares of Restricted Stock awarded under the Plan during a period set by the Committee (the “Period of Restriction”) commencing with the date of such Award, as set forth in the Award agreement or grant letter, and such agreement or grant letter shall set forth a vesting schedule and any events that would accelerate vesting of the shares of Restricted Stock. Within these limits, based on service, attainment of performance goals and/or such other factors or criteria as the Committee may determine in its sole discretion, the Committee may provide for the lapse of such restrictions in installments in whole or in part, or may accelerate the vesting of all or any part of any Award of Restricted Stock and/or waive the deferral limitations for all or any part of any Award of Restricted Stock.
- (h) Unless and until the Committee determines that Restricted Stock granted to a Covered Employee need not comply with the Performance-Based Exception, any performance goal and the vesting percentage must be established in writing by the Committee prior to the beginning of the applicable fiscal year or at such later date as otherwise determined by the Committee and while the outcome of the performance goals is substantially uncertain (but in no event later than after 25% of the period of service to which the performance goal relates has elapsed). Such performance goals may incorporate provisions for disregarding (or adjusting for) changes in accounting methods, corporate transactions (including, without limitation, dispositions and acquisitions) and other similar type events or circumstances.
- (i) Upon a Participant’s Termination of Employment or Termination of Directorship for any reason during the relevant Period of Restriction, all Restricted Stock still subject to restriction will vest or be forfeited in accordance with the terms and conditions established by the Committee at grant or thereafter.

Section 12. Performance Awards.

The Committee is authorized to grant to Participants Performance Awards that are payable in, valued in whole or in part by reference to, or otherwise based on or related to shares of Stock, including but not limited to, Stock awarded purely as a bonus and not subject to any restrictions or conditions, shares of Stock in payment of the amounts due under an incentive or performance plan sponsored or maintained by the Company, stock

equivalent units, restricted stock units, deferred stock units, and Awards valued by reference to book value of Stock.

Stock issued on a bonus basis under this Section may be issued for no cash consideration; Stock purchased pursuant to a purchase right awarded under this Section shall be priced, as determined by the Committee in its sole discretion.

For a Performance Award that the Committee determines shall not be designed to comply with the Performance Based Exception, the performance goals shall be established by the Committee. Unless and until the Committee determines that a Performance Award to a Covered Employee shall not be designed to comply with the Performance-Based Exception, any performance goal related to a Performance Award must be established in writing by the Committee prior to the beginning of the applicable fiscal year or at such later date as otherwise determined by the Committee and while the outcome of the performance goals is substantially uncertain (but in no event later than after 25% of the period of service to which the performance goal relates has elapsed).

Any Performance Award and any Stock covered by any such Award shall vest or be forfeited to the extent so provided in the Award agreement, as determined by the Committee, in its sole discretion.

Unless otherwise provided in the Award agreement, in the event the minimum corporate goal is not achieved at the conclusion of the Performance Period, no payment shall be made to the Participant. Actual payment of the Performance Award earned shall be in cash or in Stock or in a combination of both, in a single sum or in periodic installments, all as the Committee in its sole discretion determines. If Stock is used, the Participant shall not have the right to vote and receive dividends until the goals are achieved and the actual shares are issued. In the event a Reporting Person received a Performance Award which includes Stock, such stock shall not be sold or disposed of for six (6) months following the date of issuance pursuant to such award. In the event a Performance Award is paid in cash instead of Stock, the number of shares reserved for issuance hereunder and the number of shares which may be granted in the form of Restricted Stock or Performance Awards shall be reduced as if shares had been issued. The Committee shall certify in writing that any performance goals and any other material terms of a Performance Award have been achieved prior to the actual payment of the Performance Award. Unless otherwise provided in the Award agreement, amounts equal to any dividends declared during the Performance Period with respect to the number of shares of Stock covered by a Performance Share will not be paid to the Participant.

Subject to the applicable provisions of the Award agreement and the Plan, upon a Participant's Termination of Employment or Termination of Directorship for any reason during the Performance Period, the Performance Awards in question will vest or be forfeited in accordance with the terms and conditions established by the Committee at grant.

Based on service, performance and/or such other factors or criteria, if any, as the Committee may determine, the Committee may, at or after grant, accelerate the vesting of all or any part of any Performance Award and/or waive the deferral limitations for all or any part of such Award.

Section 13. Adjustment Provisions.

- (a) If the Company shall at any time change the number of issued shares of Stock without new consideration to the Company (such as by stock dividends or stock splits), the total number of shares reserved for issuance under the Plan, the maximum number of shares available to a particular Participant, and the number of shares covered by each outstanding Award (and the exercise or purchase price thereof), shall be adjusted by the Committee to prevent substantial dilution or enlargement of the rights granted to, or available for, Participants under the Plan. Awards may also contain provisions for their continuation or for other equitable adjustments after changes in the Stock resulting from reorganization, sale, merger, consolidation, issuance of stock rights or warrants, or similar occurrence.
- (b) Notwithstanding any other provision of the Plan, and without affecting the number of shares reserved or available hereunder, the Board may authorize the equitable adjustment of benefits in connection with any merger, consolidation, acquisition of property or stock, or reorganization upon such terms and conditions as it may deem appropriate.

Section 14. Change of Control.

(a) Except as provided otherwise in this section or in an Award Agreement at the time an Award is granted, notwithstanding anything to the contrary in this Plan:

(i) if exercise of a Award is required, then in the case of Change in Control events that arise from a merger, consolidation, share exchange or liquidation, each Award requiring exercise that is not exercised at the Change Effective Time shall lapse and all rights thereunder shall be forfeited immediately after the actual consummation (in the case of an agreement which will result in a Change in Control) or the happening of a Change in Control (the "Change Effective Time"), if the Participant holding such Award has received written notice at least 15 days prior to the Change Effective Time that his right to exercise the Award in full has been accelerated and must be exercised before the Change Effective Time to prevent such forfeiture or lapse at the Change Effective Time, or

(ii) alternatively to subsection (i) above, in the discretion of the Committee, a Participant may be entitled to receive, in lieu of the exercise of any Option or SAR, a cash payment in an amount equal to the difference between the exercise price of the Option or SAR upon the Change Effective Time equal to (A) in the case of a tender offer or cash exchange offer, the final offer price paid per share of Stock, multiplied by the number of shares of Stock covered by the Option or SAR, or (B) in the case of any other Change of Control, the aggregate Fair Market Value of the shares of Stock covered by the Option or SAR (as if fully vested), provided that this discretion shall not be allowed or exercisable if the Committee believes that cash payment would make an Option or SAR subject to and non-compliant with Code Section 409A as "deferred compensation."

(iii) if no exercise of a Award is required (e.g. with respect to Restricted Stock or a Restricted Stock Unit or Performance Share), and subparagraph (b) hereof does not apply, the Award will be nonforfeitable in full immediately before the Change Effective Time.

(b) *Award Substitution Avoids Lapse and Acceleration of Vesting of Awards.* In the event outstanding Awards are to be replaced as of the Change Effective Time by comparable types of awards of substantially equivalent value, and such replacement meets the conditions of a modification that would be permitted under Code Section 424 with respect to an Incentive Stock Option (and similar principles for other Awards to avoid them becoming deferred compensation within the meaning of Code Section 409A), Section 3.4(a)'s terms, including acceleration of vesting or exercisability upon a Change in Control or at the Change Effective Time, shall not apply, provided, however, that, with respect to any Participant who incurs a Termination of Service within 12 months following the Change Effective Time, all Awards made prior to the Change of Control shall immediately become fully vested, nonforfeitable and exercisable in full.

(c) For purposes of the Plan, a "Change of Control" means (i) an event or series of events which have the effect of any "person" as such term is used in Section 13(d) and 14(d) of the Exchange Act, other than any trustee or other fiduciary holding securities of the Company under any employee benefit plan of the Company, becoming the "beneficial owner" as defined in Rule 13d-3 under the Exchange Act, directly or indirectly, of securities of the Company representing 45% or more of the combined voting power of the Company's then outstanding stock other than by an employee benefit plan sponsored by the Company or by a person who owns such a percentage at the Effective Date; (ii) during any period of two consecutive years, individuals who at the beginning of such period constitute the Board cease for any reason to constitute a majority thereof, unless the election, or the nomination for election by the stockholders, of each new director was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of the period; (iii) the shareholders of the Company approve a definitive agreement to enter into a merger, consolidation, share exchange or other transaction with or into another company (other than a transaction that would result in the voting securities of the Company outstanding immediately prior to such transaction continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 50% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such transaction) or to sell or otherwise transfer all or substantially all of the Company's assets or to adopt a plan of liquidation. A Change of Control shall also be deemed to occur if (i) the Company enters into an agreement, the consummation of which would result in the occurrence of a Change of Control, or (ii) the Board adopts a resolution to the effect that a Change of Control for purposes of this Plan has occurred. Provided, however, that the Committee may provide in an Award Agreement that it believes may constitute "deferred compensation" pursuant to Code Section 409A, that "Change of Control" will have the meaning given in guidance from the Internal Revenue Service construing that term for purposes of allowable triggers for payment of deferred compensation, and such definition shall apply in all events with respect to Cash Awards.

Section 15. Nontransferability.

Unless otherwise provided in an Award agreement, Awards granted under the Plan to a Participant shall not be transferable otherwise than by will or the laws of descent and distribution or pursuant to a Qualified Domestic Relations Order (as defined in Section 206(d)(3) of the Employee Retirement Income Security Act of 1974, as amended, and the rules promulgated thereunder), and shall be exercisable, during the Participant's lifetime, only by the Participant. In the event of the death of a Participant, exercise of payment shall be made only:

- (a) By or to the executor or administrator of the estate of the deceased Participant or the person or persons to whom the deceased Participant's rights under the Award shall pass by will or the laws of descent and distribution; and
- (b) To the extent that the deceased Participant was entitled thereto at the date of his death, provided, however, that any otherwise applicable six-month holding period shall not be required for exercise by or payment to an executor or administrator of the estate of a deceased Reporting Person.

Section 16. Taxes.

The Company shall be entitled to withhold the amount of any tax attributable to any amounts payable or shares deliverable under the Plan after giving the person entitled to receive such payment or delivery notice as far in advance as practicable, and the Company shall have the right to deduct any such taxes from any payment of any kind due to the Award recipient. The person entitled to any such delivery may, by notice to the Company at the time the requirement for such delivery is first established, elect to have such withholding satisfied by a reduction of the number of shares otherwise so deliverable (a "Stock Withholding Election"), such reduction to be calculated based on a closing market price on the date of such notice. Reporting Persons may make a Stock Withholding Election either (i) during a Window Period, as to an Option or SAR exercise during such Window Period, or (ii) six months in advance of an Option or SAR exercise, which exercise need not occur during a Window Period, and which election may not be suspended or revoked except by another such election which shall not become effective until six months after it is made.

Section 17. No Right to Employment

A Participant's right, if any, to continue to serve the Company and its subsidiaries as a director, officer, employee, or otherwise, shall not be enlarged or otherwise affected by his or her designation as a Participant under the Plan.

No Award shall be granted more than ten years after the effective date of the Plan, but Awards granted prior to such date may extend beyond that date; provided, however, that the terms and conditions applicable to any Award granted within such period may thereafter be amended or modified by mutual agreement between the Company and the Participant or such other person as may then have an interest therein. Also, by mutual

agreement between the Company and a Participant hereunder, Options or other Awards may be granted to such Participant in substitution and exchange for, and in cancellation of, any Awards previously granted such Participant under the Plan, subject to compliance with Code Section 409A. To the extent that any Options or other Awards which may be granted within the terms of the Plan would qualify under present or future laws for tax treatment that is beneficial to a recipient, then any such beneficial treatment shall be considered within the intent, purpose and operational purview of the Plan and the discretion of the Committee and to the extent that any such Options or other Awards would so qualify within the terms of the Plan, the Committee shall have full and complete authority to grant Options or other Awards that so qualify (including the authority to grant, simultaneously or otherwise, Options or other Awards which do not so qualify) and to prescribe the terms and conditions (which need not be identical as among recipients) in respect to the grant or exercise of any such Option or other Awards under the Plan. The Board may amend the Plan from time to time or terminate the Plan at any time. However, no action authorized by this paragraph shall adversely impair the rights of a Participant regarding any existing Award. No amendment of the Plan, shall, without approval of the stockholders of the Company (a) increase the total number of shares which may be issued under the Plan (except pursuant to Section 13); (b) change the minimum purchase price, if any (except pursuant to Section 13 hereof), of shares of Stock which may be made subject to Awards under the Plan; or (c) modify the requirements as to eligibility for Awards under the Plan. No amendment shall be effective without stockholder approval if such approval is required in order for the Plan to continue to comply with the applicable rules of any exchange or system on which the Company's securities are listed or traded, the applicable provisions of Section 162(m) of the Code or, to the extent applicable to Incentive Stock Options, Section 422 of the Code.

Section 18. Shareholder Approval.

The Plan shall be effective on March 26, 2008, subject to the approval of the Plan by the stockholders of the Company within 12 months before or after adoption of the Plan by the Board in accordance with the laws of the State of Nevada.

Section 19. Governing Law.

Except to the extent preempted by any applicable federal law, the Plan will be construed and administered in accordance with the laws of the State of Nevada, without reference to the principles of conflicts of law.

Section 20. General Provisions

- (a) The Committee may require each person receiving shares of Stock pursuant to an Option or other Award under the Plan to represent to and agree with the Company in writing that the Participant is acquiring the shares without a view to distribution thereof. In addition to any legend required by the Plan, the certificates for such shares may include any legend which the Committee deems appropriate to reflect any restrictions on transfer. All certificates for shares of Stock delivered under the Plan shall be subject to such stop transfer orders and other restrictions as the

Committee may deem advisable under the rules, regulations and other requirements of the Securities and Exchange Commission, any stock exchange upon which the Stock is then listed or any national securities exchange system upon whose system the Stock is then quoted, any applicable Federal or state securities law, and any applicable corporate law, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

- (b) Unless otherwise determined by the Committee, as long as the Stock is listed on a national securities exchange or quoted on a system sponsored by a national securities association, the issue of any shares of Stock pursuant to an Award shall be conditioned upon such shares being listed on such exchange or quoted on such system. The Company shall have no obligation to issue such shares unless and until such shares are so listed or quoted, and the right to exercise any Option or other Award with respect to such shares shall be suspended until such listing or quotation has been effected.

If at any time counsel to the Company shall be of the opinion that any sale or delivery of shares of Stock pursuant to an Option or other Award is or may in the circumstances be unlawful or result in the imposition of excise taxes on the Company under the statutes, rules or regulations of any applicable jurisdiction, the Company shall have no obligation to make such sale or delivery, or to make any application or to effect or to maintain any qualification or registration under the Securities Act of 1933, as amended, or otherwise, with respect to shares of Stock or Awards, and the right to exercise any Option or other Award shall be suspended until, in the opinion of said counsel, such sale or delivery shall be lawful or will not result in the imposition of excise taxes on the Company.

Upon termination of any period of suspension under this Section, any Award affected by such suspension which shall not then have expired or terminated shall be reinstated as to all shares of Stock available before such suspension and as to shares of Stock which would otherwise have become available during the period of such suspension, but no such suspension shall extend the term of any Award.

A Participant shall be required to supply the Company with any certificates, representations and information that the Company requests and otherwise cooperate with the Company in obtaining any listing, registration, qualification, exemption, consent or approval the Company deems necessary or appropriate.

- (c) All elections and transactions under the Plan by persons subject to Section 16 of the Exchange Act involving shares of Stock are intended to comply with any applicable exemptive condition under Rule 16b-3. The Committee may establish and adopt written administrative guidelines, designed to facilitate compliance with Section 16(b) of the Exchange Act,

as it may deem necessary or proper for the administration and operation of the Plan and the transaction of business thereunder.

- (d) Notwithstanding any other provision of the Plan, any Award under the Plan that comes within the meaning of Code Section 409A's definition of "deferred compensation" shall be designed and granted in such a way as to comply with that Code Section's election timing rules, limitations on distribution triggering events, and must specify the Award agreement the time and form of payment of the Award, subject only to delay in accordance with Code Section 409A's provisions, and never subject to acceleration.

EXHIBIT A

PERFORMANCE GOALS

Performance goals established for purposes of the grant or vesting of Restricted Stock and Performance Awards that are granted to Covered Employees and that are intended to comply with the Performance-Based Exception shall be based on the attainment of certain target levels of, or a specified increase or decrease (as applicable) in one or more of the following performance goals: (i) enterprise value or value creation targets; (ii) after-tax or pre-tax profits, including without limitation as attributable to continuing and/or other operations of the Company; (iii) operational cash flow or economic value added; (iv) specified objectives with regard to limiting the level of increase in all or a portion of, the Company's bank debt or other long-term or short-term public or private debt or other similar financial obligations of the Company, which may be calculated net of cash balances and/or other offsets and adjustments as may be established by the Committee; (v) earnings per share or earnings per share from continuing operations; (vi) net sales, revenues, net income or earnings before income tax or other exclusions; (vii) return on capital employed or return on invested capital; (viii) after-tax or pre-tax return on stockholder equity; (ix) the fair market value of the shares of the Company's Stock; (x) the growth in the value of an investment in the Company's Stock assuming the reinvestment of dividends; (xi) a transaction that results in the sale of stock or assets of the Company; (xii) earnings before interest, taxes plus amortization and depreciation; or (xiii) reduction in expenses. The Committee may also exclude the impact of an event or occurrence which the Committee determines should be appropriately excluded, including: (a) restructurings, discontinued operations, extraordinary items or events, and other unusual or non-recurring charges, (b) an event either not directly related to the operations of the Company or not within the reasonable control of the Company's management, or (c) a change in tax law or accounting standards required by generally accepted accounting principles.

In addition, performance goals may be based upon the attainment of specified levels of Company (or subsidiary, division or other operational unit or business segment of the Company) performance under one or more of the measures described above relative to the performance of other corporations. The Committee may: (i) designate additional business criteria on which the performance goals may be based or (ii) adjust, modify or amend the aforementioned business criteria.

«Title» «First_Name» «Last_Name»
«Company_Name»
«Address_Line_1»
«City», «State» «ZIP_Code»

RE: ***Stock Option Award***

««GreetingLine»»

I am pleased to inform you that the Board of Directors of Beacon Enterprise Solutions Group, Inc. has approved an award of stock options to you. The Board of Directors believes that the award of these options gives you a unique opportunity to profit from any increase in the price of the Company's stock. We believe it is very important for our people to share in the growth and prosperity of our company by being owners of our stock.

You have been awarded options to purchase «Amount2» shares of Beacon Enterprise Solutions Group, Inc. Common Stock, pursuant to Section 9 of the Beacon Solutions 2008 Long Term Incentive Plan (the "Plan") and I am delivering to you the enclosed award agreement. Section 7 of the Plan requires that any participant sign and return the original signed agreement within thirty (30) days after the date of mailing or delivery by the Company of the award agreement to the participant. If you do not return the original signed award agreement within thirty (30) days, your award will be automatically terminated. Therefore, please sign and return the enclosed award agreement to me and I will execute it on behalf of the Company and return a copy of the fully executed award agreement to you for your file.

If you have any questions, please do not hesitate to contact Robert Mohr, at 502-657-3503, or me at 502-657-3501.

Very truly yours,

Bruce Widener
CEO

Enclosure

BEACON SOLUTIONS
2008 LONG TERM INCENTIVE PLAN
INCENTIVE STOCK OPTION AWARD AGREEMENT

THIS AGREEMENT, entered into as of the Grant Date (as defined in Section 1), by and between the _____ (the "Optionee") and Beacon Enterprise Solutions Group, Inc. (the "Company");

WHEREAS, the Company maintains the Beacon Solutions 2008 Long Term Incentive Plan (the "Plan"), which is incorporated into and forms a part of this Agreement, and the Optionee has been selected by the committee administering the Plan (the "Committee") to receive a Stock Option Award under the Plan;

NOW, THEREFORE, IT IS AGREED, by and between the Company and the Optionee, as follows:

Section 21. Terms of Award and Definitions. The following terms used in this Agreement shall have the meanings set forth in this Section 1:

(a) **Covered Shares.** The number of "Covered Shares" shall be _____ shares of Stock.

(b) **Date of Termination.** The Optionee's "Date of Termination" shall be the first day occurring on or after the Grant Date on which the Optionee is neither employed by the Company or any Subsidiary; provided that a termination shall not be considered to have occurred while the Optionee is on an approved leave of absence from the Company or a Subsidiary. If, as a result of a sale or other transaction, an Optionee ceases to be an employee of the Company or any Subsidiary (and the Optionee's employer is or becomes an entity that is separate from the Company or any Subsidiary), the occurrence of such transaction shall be treated as the Optionee's Date of Termination caused by the Optionee being discharged by the employer.

(c) **Designated Beneficiary.** The "Designated Beneficiary" shall be the beneficiary or beneficiaries designated by the Optionee in a writing filed with the Committee in such form and at such time as the Committee shall require.

(d) **Disability.** The Optionee shall be considered to have a "Disability" if he has incurred a "Disability" as described in the Plan.

(e) **Exercise Price.** The "Exercise Price" is \$ X.XX per share.

(f) **Grant Date.** The "Grant Date" is _____, 2008.

(g) **Immediate Family.** "Immediate Family" shall mean the Optionee's spouse, parents, children, stepchildren, adoptive relationships, sisters, brothers and grandchildren and, for this purpose, shall also include the Optionee.

Except where the context clearly implies or indicates the contrary, a word, term, or phrase used in the Plan is similarly used in this Agreement.

Section 22. Award and Exercise Price. This Agreement specifies the terms of the option (the “Option”) granted to the Optionee to purchase the number of Covered Shares of Stock at the Exercise Price per share as set forth in Section 1. The Option is intended to constitute an “incentive stock option” as that term is used in Code section 422, and shall be so construed. To the extent that the aggregate fair market value (determined at the time of grant) of Shares with respect to which incentive stock options are exercisable for the first time by the Optionee during any calendar year under all plans of the Company and its affiliates exceeds \$100,000, the options or portions thereof which exceed such limit (according to the order in which they were granted) shall be treated as nonstatutory stock options. It should be understood that there is no assurance that the option will, in fact, be treated as an incentive stock option. To the extent an Option is not treated as an incentive stock option, it shall be treated as a nonstatutory stock option.

Section 23. Date of Exercise.

(a) Subject to the limitations of this Agreement, the Option shall be exercisable according to the following schedule, with respect to each installment shown in the schedule on and after the Vesting Date applicable to such installment (each an “Installment”):

INSTALLMENT	VESTING DATE APPLICABLE TO INSTALLMENT
[33.33% of shares]	, 2009
[33.33% of shares]	, 2010
[33.34% of shares]	, 2011

(b) An Installment shall not become exercisable on the otherwise applicable Vesting Date if the Optionee’s Date of Termination occurs on or before such Vesting Date. Notwithstanding the foregoing provisions of this Section 3, the Option shall become exercisable with respect to all of the Covered Shares (to the extent it is not then otherwise exercisable) as follows:

(i) If the Optionee’s Date of Termination occurs by reason of the Optionee’s death or Disability, the Option shall become fully exercisable upon the Optionee’s Date of Termination; and

(ii) If the Optionee’s Date of Termination does not occur on or before the Change in Control (as defined in Section 14 of the Plan), the Option shall become fully exercisable upon a Change in Control.

(c) Otherwise, the Option may be exercised on or after the Date of Termination only as to that portion of the Covered Shares as to which it was

exercisable immediately prior to the Date of Termination, or as to which it became exercisable on the Date of Termination in accordance with this Section 3.

(d) As provided in Section 13 of the Plan, and upon the occurrence of any of the conditions listed therein, the Committee in its sole discretion shall make any adjustments as may be appropriate in the number of Covered Shares as to which this Option shall be exercisable and in the option rights granted.

Section 24. Expiration. The Option shall not be exercisable after the Company's close of business on the last business day that occurs prior to the Expiration Date. The "Expiration Date" shall be earliest to occur of:

- (a) The ten-year anniversary of the Grant Date (5 years in the case of a 10% or greater shareholder);
- (b) If the Optionee's Date of Termination occurs by reason of death or Disability, the one-year anniversary of such Date of Termination;
- (c) If the Optionee's Date of Termination occurs for reasons other than death, Disability, or Cause the 90-day anniversary of such Date of Termination; or
- (d) The date the Optionee is dismissed from the Company for Cause.

Section 25. Method of Option Exercise.

(a) Subject to the Agreement and the Plan, the Option may be exercised in whole or in part by filing a written notice in substantially the form attached hereto as Exhibit 1 with the President and Chief Executive Officer prior to the Company's close of business on the last business day that occurs prior to the Expiration Date. Such notice shall specify the number of shares of Stock which the Optionee elects to purchase, and shall be accompanied by payment of the Exercise Price for such shares of Stock indicated by the Optionee's election.

(b) Payment shall be by cash or by check payable to the Company, or, alternatively, as follows to the extent permitted by the Committee at the time of exercise:

(i) all or a portion of the Exercise Price may be paid by the Optionee by delivery of shares of Stock owned by the Optionee and acceptable to the Committee having an aggregate Fair Market Value (valued as of the date of exercise) that is equal to the amount of cash that would otherwise be required;

(ii) the Optionee may pay the Exercise Price by authorizing a third party to sell shares of Stock (or a sufficient portion of the shares) acquired upon exercise of the Option and remit to the Company a sufficient portion of the sale proceeds to pay the entire Exercise Price and any tax withholding resulting from such exercise or,

(iii) the Optionee may pay the Exercise Price by authorizing the Company to withhold shares of Stock (or a sufficient portion of the shares) acquired upon exercise of the Option having an aggregate Fair Market Value (valued as of the date of exercise) that is equal to the amount of cash that would be required to pay the entire Exercise Price and any tax withholding resulting from such exercise.

(c) The Option shall not be exercisable if and to the extent the Company determines that such exercise would violate applicable state or Federal securities laws or the rules and regulations of any securities exchange on which the Stock is traded. If the Company makes such a determination, it shall use all reasonable efforts to obtain compliance with such laws, rules or regulations. In making any determination hereunder, the Company may rely on the opinion of counsel for the Company.

Section 26. Withholding. To the extent necessary, Optionee must satisfy his federal, state, and local, if any, withholding taxes imposed by reason of the exercise of the Option either by paying to the Company the full amount of the withholding obligation (i) in cash; (ii) by tendering shares of Stock which are owned by the Optionee prior to the date of exercise having a Fair Market Value equal to the withholding obligation (a "Withholding Election"); (iii) by electing, irrevocably and in writing (also a "Withholding Election"), to have the smallest number of whole shares of Stock withheld by the Company which, when multiplied by the Fair Market Value of the Stock as of the date the Option is exercised, is sufficient to satisfy the amount of withholding tax; or (iv) by any combination of the above. Optionee may make a Withholding Election only if the following conditions are met:

(a) The Withholding Election is made on or prior to the date on which the amount of tax required to be withheld is determined (the "Tax Date") by executing and delivering to the Company a properly completed Notice of Withholding Election in substantially the form attached hereto as Exhibit 2; and

(b) Any Withholding Election will be irrevocable; however, the Committee may, in its sole discretion, disapprove and give no effect to the Withholding Election.

Section 27. Transferability.

(a) Except as otherwise provided in this Section 7, the Option is not transferable other than as designated by the Optionee by will or by the laws of descent and distribution, and during the Optionee's life, may be exercised only by the Optionee.

(b) Notwithstanding the foregoing, the Optionee, with the approval of the Committee, may transfer the Option for no consideration to or for the benefit of the Optionee's Immediate Family (including, without limitation, to a trust for the benefit of the Optionee's Immediate Family or to a partnership or limited liability company for one or more members of the Optionee's Immediate Family), subject to such limits as the Committee may establish, and the transferee shall

remain subject to all the terms and conditions applicable to the Option prior to such transfer.

(c) The foregoing right to transfer the Option shall apply to the right to consent to amendments to this Agreement and, in the discretion of the Committee, shall also apply to the right to transfer ancillary rights associated with the Option.

Section 28. Heirs and Successors.

(a) This Agreement shall be binding upon, and inure to the benefit of, the Company and its successors and assigns, and upon any person acquiring, whether by merger, consolidation, purchase of assets or otherwise, all or substantially all of the Company's assets and business.

(b) If any rights exercisable by the Optionee or benefits deliverable to the Optionee under this Agreement have not been exercised or delivered, respectively, at the time of the Optionee's death, such rights shall be exercisable by the Designated Beneficiary, and such benefits shall be delivered to the Designated Beneficiary, in accordance with the provisions of this Agreement and the Plan.

(c) If a deceased Optionee has failed to designate a beneficiary, or if the Designated Beneficiary does not survive the Optionee, any rights that would have been exercisable by the Optionee and any benefits distributable to the Optionee shall be exercised by or distributed to the legal representative of the estate of the Optionee.

(d) If a deceased Optionee has designated a beneficiary but the Designated Beneficiary dies before the Designated Beneficiary's exercise of all rights under this Agreement or before the complete distribution of benefits to the Designated Beneficiary under this Agreement, then any rights that would have been exercisable by the Designated Beneficiary shall be exercised by the legal representative of the estate of the Designated Beneficiary, and any benefits distributable to the Designated Beneficiary shall be distributed to the legal representative of the estate of the Designated Beneficiary.

Section 29. Administration. The authority to manage and control the operation and administration of this Agreement shall be vested in the Committee, and the Committee shall have all powers with respect to this Agreement as it has with respect to the Plan. Any interpretations of the Agreement by the Committee and any decisions made by it with respect to the Agreement are final and binding on all persons.

Section 30. Plan Governs. Notwithstanding anything in this Agreement to the contrary, the terms of this Agreement shall be subject to the terms of the Plan, a copy of which may be obtained by the Optionee from the office of the Secretary of the Company. This Agreement is subject to all interpretations, amendments, rules and regulations promulgated by the Committee from time to time pursuant to the Plan.

Section 31. No Employment Contract. The Option will not confer on the Optionee any right with respect to continuance of employment or other service with the Company or any Subsidiary, nor will it interfere in any way with any right the Company or any Subsidiary would otherwise have to terminate or modify the terms of such Optionee's employment or other service at any time.

Section 32. Notices. Any written notices provided for in this Agreement or the Plan shall be in writing and shall be deemed sufficiently given if either hand delivered or if sent by fax or overnight courier, or by postage paid first class mail. Notices sent by mail shall be deemed received three business days after mailed but in no event later than the date of actual receipt. Notices shall be directed, if to the Optionee, at the Optionee's address indicated by the Company's records, or if to the Company, at the Company's principal executive office.

Section 33. Fractional Shares. In lieu of issuing a fraction of a share upon any exercise of the Option, the Company will be entitled to pay to the Optionee an amount equal to the fair market value of such fractional share.

Section 34. No Shareholder Rights. The Optionee shall not have any rights of a shareholder with respect to the shares subject to the Option, until a stock certificate has been duly issued following exercise of the Option as provided herein.

Section 35. Amendment. This Agreement may be amended by written agreement of the Optionee and the Company, without the consent of any other person.

Section 36. Forfeiture. Notwithstanding the foregoing, if, following the Date of Termination, Optionee violates any of Optionee's post-termination obligations to the Company or any Subsidiary, including, without limitation, any obligation not to compete with the Company or any Subsidiary (regardless of whether such obligation is enforceable under applicable law), not to solicit employees of the Company or any Subsidiary, to maintain the confidentiality on information belonging to the Company or any Subsidiary, or not to disparage the Company or any Subsidiary or any of their affiliates, immediately upon demand by the Company the Optionee shall return to the Company the proceeds from this Award to the extent received by the Optionee on or after one year prior to Date of Termination.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed in its name and on its behalf, all as of the Grant Date.

Beacon Enterprise Solutions Group, Inc.

By: _____

Its: Chief Executive Officer

Accepted this ____ day of _____, 20__ by **Optionee**

Signed: _____

Print Name: _____

Social Security Number: _____

EXHIBIT 1

**NOTICE OF EXERCISE OF
STOCK OPTION TO PURCHASE STOCK OF
BEACON ENTERPRISE SOLUTIONS GROUP, INC.**

Name: _____

Address: _____

Date: _____

Beacon Enterprise Solutions Group, Inc.
Attn: CEO

Re: Exercise of Incentive Stock Option

Dear Sir or Madam:

Subject to acceptance hereof in writing by Beacon Enterprise Solutions Group, Inc. (the "Company") pursuant to the provisions of the Beacon Solutions 2008 Long-Term Incentive Plan, I hereby give at least ten days but not more than thirty days prior notice of my election to exercise options granted to me to purchase _____ shares of Stock of the Company under the Incentive Stock Option Award Agreement (the "Award") pursuant to the Beacon Solutions 2008 Long-Term Incentive Plan dated as of December 21, 2007. The purchase shall take place as of _____, _____ (the "Exercise Date").

On or before the Exercise Date, I will pay the applicable purchase price as follows:

- ☐ by delivery of cash or a certified check for \$ _____ for the full purchase price payable to the order of the Company.
- ☐ by delivery of a certified check for \$ _____ representing a portion of the purchase price with the balance to consist of shares of Stock that I own and that are represented by a stock certificate I will surrender to the Company with my endorsement. If the number of shares of Stock represented by such stock certificate exceed the number to be applied against the purchase price, I understand that a new stock certificate will be issued to me reflecting the excess number of shares.
- ☐ by delivery of a stock certificate representing shares of Stock that I own which I will surrender to the Company with my endorsement as payment of the purchase price. If the number of shares of Stock represented by such certificate exceed the number to be applied against the purchase price, I understand that a new certificate will be issued to me reflecting the excess number of shares.
- ☐ by the Company withholding from the purchased shares a number of shares having an aggregate Fair Market Value on the date of exercise, equal to the aggregate exercise price of all options being exercised.
-

☐ by delivery of the purchase price by _____, a broker, dealer or other “creditor” as defined by Regulation T issued by the Board of Governors of the Federal Reserve System. I hereby authorize the Company to issue a stock certificate in the number of shares indicated above in the name of said broker, dealer or other creditor or its nominee pursuant to instructions received by the Company and to deliver said stock certificate directly to that broker, dealer or other creditor (or to such other party specified in the instructions received by the Company from the broker, dealer or other creditor) upon receipt of the purchase price.

As soon as the stock certificate is registered in my name, please deliver it to me at the above address.

If the Stock being acquired is not registered for issuance to and resale by the Optionee pursuant to an effective registration statement on Form S-8 (or successor form) filed under the Securities Act of 1933, as amended (the “1933 Act”), I hereby represent, warrant, covenant, and agree with the Company as follows:

The shares of the Stock being acquired by me will be acquired for my own account without the participation of any other person, with the intent of holding the Stock for investment and without the intent of participating, directly or indirectly, in a distribution of the Stock and not with a view to, or for resale in connection with, any distribution of the Stock, nor am I aware of the existence of any distribution of the Stock;

I am not acquiring the Stock based upon any representation, oral or written, by any person with respect to the future value of, or income from, the Stock but rather upon an independent examination and judgment as to the prospects of the Company;

The Stock was not offered to me by means of any publicly disseminated advertisements or sales literature, nor am I aware of any offers made to other persons by such means;

I am able to bear the economic risks of the investment in the Stock, including the risk of a complete loss of my investment therein;

I understand and agree that the Stock will be issued and sold to me without registration under any state law relating to the registration of securities for sale, and will be issued and sold in reliance on the exemptions from registration under the 1933 Act, provided by Sections 3(b) and/or 4(2) thereof and the rules and regulations promulgated thereunder;

The Stock cannot be offered for sale, sold or transferred by me other than pursuant to: (A) an effective registration under the 1933 Act or in a transaction otherwise in compliance with the 1933 Act; and (B) evidence satisfactory to the Company of compliance with the applicable securities laws of other jurisdictions. The Company shall be entitled to rely upon an opinion of counsel satisfactory to it with respect to compliance with the above laws;

The Company will be under no obligation to register the Stock or to comply with any exemption available for sale of the Stock without registration or filing, and the information or conditions necessary to permit routine sales of securities of the Company under Rule 144 under the 1933 Act may not now be available and no assurance has been given that it or they will become

available. The Company is under no obligation to act in any manner so as to make Rule 144 available with respect to the Stock;

I have and have had complete access to and the opportunity to review and make copies of all material documents related to the business of the Company, including, but not limited to, contracts, financial statements, tax returns, leases, deeds and other books and records. I have examined such of these documents as I wished and am familiar with the business and affairs of the Company. I realize that the purchase of the Stock is a speculative investment and that any possible profit therefrom is uncertain;

I have had the opportunity to ask questions of and receive answers from the Company and any person acting on its behalf and to obtain all material information reasonably available with respect to the Company and its affairs. I have received all information and data with respect to the Company which I have requested and which I have deemed relevant in connection with the evaluation of the merits and risks of my investment in the Company;

I have such knowledge and experience in financial and business matters that I am capable of evaluating the merits and risks of the purchase of the Stock hereunder and I am able to bear the economic risk of such purchase; and

The agreements, representations, warranties and covenants made by me herein extend to and apply to all of the Stock of the Company issued to me pursuant to this Award. Acceptance by me of the certificate representing such Stock shall constitute a confirmation by me that all such agreements, representations, warranties and covenants made herein shall be true and correct at that time.

I understand that the certificates representing the shares being purchased by me in accordance with this notice shall bear a legend referring to the foregoing covenants, representations and warranties and restrictions on transfer, and I agree that a legend to that effect may be placed on any certificate which may be issued to me as a substitute for the certificates being acquired by me in accordance with this notice.

Very truly yours,

AGREED TO AND ACCEPTED:

BEACON ENTERPRISE SOLUTIONS GROUP, INC.

By: _____

Title: _____

Number of Shares Exercised: _____

Number of Shares Remaining: _____

EXHIBIT 2

**NOTICE OF WITHHOLDING ELECTION
INCENTIVE STOCK OPTION AWARD
PURSUANT TO THE BEACON SOLUTIONS
2008 LONG TERM INCENTIVE PLAN**

TO: _____

FROM: _____

RE: Withholding Election

This election relates to the Option identified in Paragraph 3 below. I hereby certify that:

(1) My correct name and social security number and my current address are set forth at the end of this document.

(2) I am (check one, whichever is applicable).

☐ the original recipient of the Option.

☐ the legal representative of the estate of the original recipient of the Option.

☐ the legal guardian of the original recipient of the Option.

☐ an Immediate Family Member other than the original recipient of the Option.

(3) The Option to which this election relates was issued under the Beacon Solutions 2008 Long-Term Incentive Plan (the "Plan") in the name of _____ for the purchase of a total of _____ shares of Stock of the Company. This election relates to _____ shares of Stock issuable upon exercise of the Option, provided that the numbers set forth above shall be deemed changed as appropriate to reflect the applicable Plan provisions.

(4) In connection with any exercise of the Option with respect to the Stock, I hereby elect one or more of the following:

☐ to pay cash or certified check in the amount of \$ _____ to be applied to pay federal, state, and local, if any, taxes arising from the exercise.

☐ to pay the full federal, state, and local, if any, taxes arising from the exercise in cash or certified check.

☐ to have certain of the shares issuable pursuant to the exercise withheld by the Company for the purpose of having the value of the shares applied to pay federal, state, and local, if any, taxes arising from the exercise.

[] to tender shares held by me prior to the exercise of the Option for the purpose of having the value of the shares applied to pay such taxes.

The shares to be withheld or tendered, as applicable, shall have, as of the Tax Date applicable to the exercise, a Fair Market Value equal to the minimum statutory tax withholding requirement under federal, state, and local law in connection with the exercise.

- (5) This Withholding Election is made no later than the Tax Date and is otherwise timely made pursuant to the Plan.
- (6) I understand that this Withholding Election may not be revised, amended or revoked by me.
- (7) The Plan has been made available to me by the Company. I have read and understand the Plan and I have no reason to believe that any of the conditions to the making of this Withholding Election have not been met.
- (8) Capitalized terms used in this Notice of Withholding Election without definition shall have the meanings given to them in the Plan.

Dated: _____

Signature

Social Security Number

Name (Printed)

Street Address

City, State, Zip Code

PRINCIPAL EXECUTIVE OFFICER CERTIFICATION

I, Bruce Widener, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Beacon Enterprise Solutions Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statement made, in light of the circumstances under which statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Bruce Widener

Date: May 13, 2009

Bruce Widener
Principal Executive Officer

PRINCIPAL FINANCIAL OFFICER CERTIFICATION

I, Robert R. Mohr, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Beacon Enterprise Solutions Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statement made, in light of the circumstances under which statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Robert R. Mohr

Date: May 13, 2009

Robert R. Mohr
Principal Financial Officer

Beacon Enterprise Solutions Group, Inc.

CERTIFICATION OF PERIODIC REPORT

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
18 U.S.C. Section 1350

The undersigned executive officer of Beacon Enterprise Solutions Group, Inc. (the “Company”) certifies pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

- the quarterly report on Form 10-Q of the Company for the quarter ended March 31, 2009, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 13, 2009

/s/ Bruce Widener

Bruce Widener
Principal Executive Officer

Beacon Enterprise Solutions Group, Inc.

CERTIFICATION OF PERIODIC REPORT

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
18 U.S.C. Section 1350

The undersigned executive officer of Beacon Enterprise Solutions Group, Inc. (the “Company”) certifies pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

- the quarterly report on Form 10-Q of the Company for the quarter ended March 31, 2009, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 13, 2009

/s/ Robert R. Mohr

Robert R. Mohr
Principal Financial Officer