

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

- ☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the year ended September 30, 2009.
- or
- ☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File Number 000-31355

BEACON ENTERPRISE SOLUTIONS GROUP, INC.
(Exact name of registrant as specified in its charter)

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

1311 Herr Lane, Suite 205, Louisville, KY
(Address of principal executive offices)

81-0438093
*(I.R.S. Employer
Identification No.)*

40218
(Zip Code)

Registrant’s telephone number, including area code
(502) 657-3500

Securities registered pursuant to Section 12(b) of the Act:
None
Securities registered pursuant to Section 12(g) of the Act:
Common Stock, \$.001 par value.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 (§232.405 of this chapter) 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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 Act). Yes ☐ No ☒

The aggregate market value of the voting and non-voting common equity held by non-affiliates was \$16,206,525 based on the price of Beacon Enterprise Solutions Group, Inc.’s common stock as of December 10, 2009, as reported on the OTC Bulletin Board.

The number of shares outstanding of Beacon Enterprise Solutions Group, Inc.’s common stock as of December 10, 2009 was 28,383,490.

DOCUMENTS INCORPORATED BY REFERENCE

Documents
None

Form 10-K Reference
Not Applicable

FORM 10-K
For the fiscal year ended September 30, 2009

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PART I

Item 1. *Business*

Beacon Enterprise Solutions Group, Inc. and subsidiaries (collectively the “*Company*”) is a provider of global, international and regional telecommunications and technology systems infrastructure services, encompassing a comprehensive suite of consulting, design, installation, and infrastructure management offerings. Beacon’s portfolio of infrastructure services spans all professional and construction requirements for design, build and management of telecommunications, network and technology systems infrastructure. Professional services offered include consulting, engineering, program management, project management, construction services and infrastructure management services. Beacon offers these services under a comprehensive contract vehicle or unbundled to some global and regional clients. Beacon also offers special services in support of qualified projects in the smart buildings/campuses/cities and data center verticals. Finally, Beacon provides managed information technology and telecommunications services in selected local markets. 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.

General

Beacon was 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 “*SME Market*”). The Company was originally formed to acquire companies that would allow it to serve the SME 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. In response to identification of a significant unserved market, our business strategy has shifted to become a leading provider of global, international and regional telecommunications and technology systems infrastructure services, encompassing a comprehensive suite of consulting, design, installation, and infrastructure management offerings, while continuing to provide managed information technology and telecommunications services in selected local markets.

Beacon generated revenue of approximately \$11.1 million for the year ended September 30, 2009 as it pursued this new strategy. For the year ended September 30, 2009, Beacon recognized a net loss of approximately (\$6.3) million. Total assets were approximately \$12.8 million as of September 30, 2009.

Share Exchange Transaction and Phase I Acquisitions

Until December 20, 2007, Beacon Enterprise Solutions Group, Inc., an Indiana corporation (“*Beacon (IN)*”) was a development stage enterprise with no operating history until the completion of the share exchange in which the shareholders of Beacon (IN) became the majority owners of Suncrest Global Energy Corp. (“*Suncrest*”), a Nevada corporation. Suncrest was incorporated in the State of Nevada on May 22, 2000. Prior to the Share Exchange Transaction, Suncrest was a publicly-traded corporation with nominal operations of its own.

Pursuant to a Securities Exchange Agreement, Suncrest acquired all of the outstanding no par value common stock of Beacon (IN) on December 20, 2007. Suncrest, in exchange for such Beacon (IN) common stock issued 1 share of its own \$0.001 par value common stock directly to Beacon (IN)’s stockholders for each share of their common stock (the “*Share Exchange Transaction*”). Following the Share Exchange Transaction, the existing stockholders of Suncrest retained 1,273,121 shares of Suncrest’s outstanding common stock and Beacon’s stockholders became the majority owners of Suncrest. Beacon paid a \$305,000 fee to the stockholders of Suncrest in connection with completing the Share Exchange Transaction which is included as a component of selling, general and administrative expense in the accompanying consolidated statement of operations.

After the Share Exchange Transaction, Suncrest was the surviving legal entity and Beacon was its wholly-owned subsidiary. Suncrest changed its name to Beacon Enterprise Solutions Group, Inc. on February 15, 2008 and continued to carry on the operations of Beacon (IN). The Share Exchange Transaction

has been accounted for as a reverse merger and recapitalization transaction in which the original Beacon is deemed to be the accounting acquirer. Accordingly, the accompanying consolidated financial statements present the historical financial position, results of operations and cash flows of Beacon (IN), adjusted to give retroactive effect to the recapitalization of Beacon (IN) into Suncrest.

Phase I Acquisitions

On December 20, 2007, Beacon acquired substantially all of the assets and assumed certain liabilities of Advance Data Systems, Inc., CETCON Inc., and Strategic Communications, Inc. under the terms of three separate asset purchase agreements. In addition, Beacon acquired substantially all of the assets and certain liabilities of Bell-Haun Systems Inc. in a stock purchase agreement. These acquisitions are referred to as the "Phase I Acquisitions."

During the year ended September 30, 2008, Beacon focused on the consolidation of various operational elements of the Phase I Acquisitions into a single core infrastructure. For further information regarding these acquisitions, please see Note 4 to the consolidated financial statements.

Operations

Services

Beacon provides professional, construction and management services to clients who require a global reach, proven experience and resources, and the consistent, predictable results that can only be offered by a single global company. Today's global and international client and international enterprises demand the competitive advantage obtained through outsourcing, without the additional cost, internal overhead and multiple points of failure that come from siloed services from small regional professional services firms or contractors. Beacon offers these global, multi-national or regional companies a competitive, single-source advantage for consulting, design, implementation, program management, project management and managed services regardless of the location. By overcoming the native barriers to entry found in the telecommunications and technology systems channels, Beacon is offering the Fortune 1,000 client a vehicle to more fully integrate global enterprise standards, reduce internal pressure on scarce IT and Facilities resources, reduce the risk that comes with multiple points of failure and increase operating income through the efficiencies that accompany true global strategic sourcing. The question is no longer whether to outsource a capability or activity, but rather how to source any activity in the value chain. Beacon offers this sourcing capability to our clients on a global, multi-national and regional basis.

Management Services. In addition to offering consulting, design, engineering and installation of telecommunications and technology systems infrastructure, Beacon offers our clients infrastructure management services to address planning, moves, adds and changes to their telecommunications and technology systems. This service effectively bundles together all Beacon infrastructure services and offer them to clients under a global, multi-national or regional umbrella agreement. To protect client investments and reduce total cost of ownership; global, multi-national or regional infrastructure management is designed to: (i) reduce internal cost and complexity for obtaining engineering, installation or management related expenses, (ii) facilitate enterprise-wide standardization, (iii) eliminate duplicated effort, (iv) protect warranties, and (v) reduce costs associated with moves, adds and changes. The previously unavailable data which may be extracted from the Beacon management system can provide strategic planning insight and empirical data for management decisions, including the viability of new enterprise initiatives. Infrastructure management services also allow the telecommunications and technology systems infrastructure to be maintained by a planned and budgeted continuum, rather than as a reaction to a series of disconnected projects. Although Beacon clients may begin by using one of our discrete, project-oriented services (described below), the business model indicates that they will frequently evolve into a global, multi-national or regional infrastructure management client.

Design, Engineering & Construction Services. The increasing economic, regulatory and environmental issues facing executives, IT and Facilities professionals mean that there are an increasing number of complex technical and operational issues that need to be solved for each customer. In order to address these issues, Beacon has moved beyond the expected baseline of technical and educational requirements (Professional

Engineer, RCDD, PMP, CPP, CISSP, etc.) and into a new paradigm of cross-disciplinary business and technical professionals who understand the benefit of standardization, predictability and consistency when provided within a process-driven solution. Companies can no longer rely on ownership of the internal capabilities to contract for a wide variety of services from a pool of subcontractors, but now must develop a smaller number of global or regional relationships that allow them to control and make the most of critical capabilities, whether or not they reside on the corporate balance sheet. Beacon provides each client with access to world-class engineering, design and installation resources, but offers them within a manner designed to permit a reduction in bottom line expenditures while reducing the workload of scarce internal resources. This contrasts the traditional bid mentality where clients lose any cost-benefit gained from the bid or proposal process, through increased pressure on internal resources needed to maintain the corporate standard while controlling the cost of administration of multiple vendors for identical tasks across a global enterprise. Beacon's solution to the dramatic changes in world markets — geopolitical, macroeconomics, and technology, is to make business capability portable by providing the processes needed to make services delivery available on a global, multi-national or regional basis.

Special Services. There are two vertical markets in FY 2010 that allow Beacon to leverage existing areas of internal expertise and as such will qualify for designation as a Beacon Special Service. They are data centers and smart (intelligent) buildings/campuses/cities. Data Center Special Services rely on existing expertise in consulting, design, project management, bid management and construction of data centers. Service delivery for data centers range from one or more compartmentalized professional services up to acting as the prime contractor for the construction or retrofit of the entire data center. The approach to smart or intelligent buildings/campuses/cities is primarily an engineering or design service, but can involve design/build projects. Enabled by the increasing availability of Internet compatible building systems, with demand created by pressure on building developers and managers to become more sensitive to energy management and reduction of carbon footprint for the built environment, the experience and knowledge required to design the infrastructure for the more than 15 low-voltage systems found in most offices are escalating in demand. Beacon has this ability internally and offers these services in higher demand areas such as the Middle East, Europe and some areas of the Pacific Rim.

Managed Information Technology and Telecommunications Services. Beacon continues to provide information technology and telecommunications services on a managed services basis in select local markets. These services are typically not portable and do not scale in the same manner as our Professional, Construction and Management Services as the customer base is largely middle market businesses with localized needs. We typically target medium sized businesses with limited information technology resources and offer high margin, value added services that allow the customer to concentrate on their business while we provide the tools necessary to supply their information technology and telecommunications needs. While profitable, we expect these services will diminish as a percentage of our overall business.

Customers

Because Beacon provides infrastructure management services to global and multi-national clients, the primary target clients can be defined as the Fortune 1000, or the broader Forbes Global 2000. Global clients may also elect to use Beacon's services in an a la carte fashion, typically using Design & Engineering services which are more portable when used outside of an infrastructure managed services contract vehicle. The business model for global, multi-national and regional clients who use one or more unbundled services allows for migration to a fully managed services offering where all services are offered under a single contractual umbrella. At the beginning of FY 2010, Beacon unveiled a regional branch business model that allowed larger local companies, especially those with multiple sites to leverage the same consulting, design, contracting, project management or even infrastructure management services offered to our global clients. This regional branch model allows smaller companies who have no interest in global managed infrastructure services, or who want to sample Beacon's services to do so with minimal risk associated with a long term contract. Further, this regional branch model allows Beacon to increase the depth of resources across a given country or region, adding scalability to global and multi-national service delivery, while providing an intake vehicle for future global clients.

Suppliers

Beacon establishes manufacturer, distributor and subcontract relationships from the global perspective. The lack of competitors offering infrastructure management services with a global reach provides Beacon with a distinct advantage. In addition, the global managed services business model provides an exclusive client relationship which is also attractive to suppliers. Beacon has accounts with various suppliers that provide products and materials necessary to fulfill our services and the needs of our customers. Such products are typically available from more than one supplier and we routinely review our supplier relationships to determine the suppliers with the most attractive footprint, logistics offerings and volume-based pricing. We use multiple criteria to evaluate our suppliers and purchase with those that provide us with the best service. The majority of Beacon's services delivery is accomplished using internal resources. From time-to-time there is a need to engage the professional or construction-related services of contracted firms. The qualification and selection of these firms' uses the same stringent background, chemical screening (where permissible by law) and technical assessments used in the hiring of employees. Contractors are held to the same high levels of service delivery, knowledge of customer and industry standards, and compliance with Beacon and industry best practices. Contractors are only used with customer knowledge and consent, and in those cases when geographical challenges or special skills are needed and cannot be overcome with internal resources.

Seasonality

Due to the breadth of services offered to Beacon clients, seasonality issues are minimal. Some seasonality deltas are noted between professional and construction services, however the volume core services and infrastructure management services tend to mitigate the seasonal differences for the unbundled services offered on a global or regional basis.

Customer Concentration

For the years ended September 30, 2008 and 2009, our largest customer accounted for approximately 19% and 25% of sales. Although we expect we will continue to have a high degree of customer concentration our customer engagements are typically covered by multi-year contracts or master service agreements under which we and our predecessor companies have been operating for a number of years. In addition, current economic conditions could harm the liquidity of and/or financial position of our customers or suppliers, which could in turn cause such parties to fail to meet their contractual or other obligations to us.

Competition

Beacon's service delivery offerings, and therefore its competitors, can be divided into two broad categories. First, services that are offered individually, generally in response to the client needs for a single service within a single project and secondly, services that are offered as a single source package (managed services and outsourcing) and delivered as part of a regional, national, multi-national or global contract, generally with a specified window of time vs. for a single project or task. When offering a single service in response to a single project, there are numerous competitors. These mid to small-sized competitors tend to be single site or confined to small geographic regions and generally aggressively compete for private or publicly announced work. Further, they typically specialize in and are good at only one service out of the 5 or 6 that the client may actually need. These smaller, single service competitors are generally viewed as being commoditized. Beacon's Branch model allows us to successfully leverage the bigger managed services offering and introduce scalability by allowing our clients the option to expand the number of services offered and the geography over which the service is delivered. By removing the business risk associated with having only a single service to offer to new and existing clients, it further allows Beacon to differentiate itself by offering a higher level of service with a more predictable price. So by leveraging the multi-service, global capabilities of Beacon, this provides a significant competitive edge for the first category of competitors, but reduces the pool of competitors for the full-spectrum managed infrastructure services offered across broad geographic areas. There are several national infrastructure firms, such as Black Box and Netversant that have the size and possibly the funding to become direct competitors, but by nature of their size and current business models they would experience significant internal resistance to change. Their past successes in the narrowly focused

services arena, combined with their size would provide internal and external barriers to entry, and may well convert many potential competitors into clients as the value of the expanded Beacon managed services model gains wider recognition and market share.

Employees

Beacon currently employs approximately 91 people, 87 full time and 4 part time, in the Columbus, OH, Louisville, KY, Raritan, NJ and Cincinnati, OH markets. Beacon currently employs 7 people in Siebnen, Switzerland. None of Beacon's employees is subject to a collective bargaining agreement.

Available Information

Our Internet address is www.askbeacon.com, where we make available, free of charge, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports, as soon as practicable after such reports are electronically filed with, or furnished to, the SEC. The SEC reports can be accessed through the "SEC Reports" link in "Investor Relations" section of our website. Other information found on our website is not part of this or any other report we file with, or furnish to, the Securities and Exchange Commission, or the SEC.

Code of Ethics

We have adopted a Code of Ethics that applies to all of our directors, officers and employees. The Code is available on our website. If any waivers of the Code are granted, the waivers will be disclosed in an SEC filing on Form 8-K. Our website also includes the Charters of the Audit Committee and the Compensation Committee. Suite 205 Stockholders may request free copies of these documents by writing to Robert R. Mohr, 1311 Herr Lane, Louisville, KY 40222, by calling 502-657-3500 or sending an email request to robert.mohr@askbeacon.com.

The public may also read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, at www.sec.gov.

Item 1A. Risk Factors

You should carefully consider the risks described below together with all of the other information included in this report before making an investment decision with regard to our securities. The statements contained in or incorporated into this report that are not historic facts are forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those set forth in or implied by forward-looking statements. If any of the following risks actually occurs, our business, financial condition or results of operations could be harmed. In that case, the trading price of Beacon Common Stock could decline, and you may lose all or part of your investment.

Risks Relating to the Business

In this discussion of the "Risks Relating to the Business," unless otherwise noted or required by the context, references to "us," "we," "our," "Beacon" and similar terms refer to Beacon, as defined above, which is comprised of the operating business of Beacon, as described above, after the consummation of the Share Exchange.

Beacon has had a history of losses.

Beacon has incurred losses since its inception. While we expect to achieve a positive cash flow basis after the full integration of our acquired operations, there can be no assurance that this will occur. Our ability to operate profitably is dependent upon our ability to operate the businesses in the Phase I Acquisitions and the

new services offerings, i.e. Infrastructure Management Services, in an economically successful manner but, no assurances can be given that we will be able to do this. Our prospects must be considered in light of the numerous risks, expenses, delays and difficulties frequently encountered in the intensely competitive and high risk telecommunications and IT services industry, as well as the risks generally inherent in the acquisition of companies and successfully integrating them. There can be no assurance that we will ever achieve sustained recurring revenue and profitability on a consistent and growing basis.

Beacon's success depends upon making and integrating acquisitions.

There can be no assurance that we will be successful in identifying, negotiating, closing, integrating and adding value with respect to any further acquisitions. Failure to either augment the revenue and profit of companies acquired or acquire new companies on an accretively valued basis would constitute a failure of our business plan and could mean that investors will fail to realize any return of their investment in Beacon.

Beacon will require additional financing.

Beacon will require substantial additional capital to implement its long-term business plan and make further acquisitions. There can be no assurance that such financing will be available to Beacon or, if it is, that it will be available on terms and at a valuation that would be accretive to the interests of current stockholders. In this regard, failure by Beacon to secure additional financing on favorable terms could have severe adverse consequences relative to Beacon's ability to grow Beacon substantially through the additional acquisitions it contemplates, which ultimately could mean that Beacon may not be viable.

Rapid technological change and obsolescence could adversely affect Beacon's business.

Our business is subject to rapid technological innovation, with old technologies superseded by innovative ones. Such developments could adversely affect the business and operations of Beacon in the future.

Beacon's success depends upon agreements with third parties.

Our proposed business plan contemplates working with third party vendors in multiple aspects of the business. The success of our plan assumes successful relationships with third party vendors for network access as well as hardware and software products and services which Beacon seeks to offer and sell. If Beacon is unable to attract competent corporate partners, or if such partners' efforts are inadequate, Beacon's business could be harmed.

Beacon has operations outside the United States.

Part of our growth strategy relies on further development of operations outside the United States; such international operations are subject to additional risks, including:

- local political or economic instability;
- changes in governmental regulation;
- changes in import/export duties;
- trade restrictions;
- lack of experience in foreign markets;
- difficulties and costs of staffing and managing operations in certain foreign countries;
- work stoppages or other changes in labor conditions;
- difficulties in collecting accounts receivables on a timely basis or at all; and
- adverse tax consequences or overlapping tax structures.

We plan to continue to market and sell our products internationally to respond to customer requirements and market opportunities. Establishing operations in any foreign country or region presents risks such as those described above as well as risks specific to the particular country or region. In addition, until a payment history is established over time with customers in a new geography or region, the likelihood of collecting receivables generated by such operations could be less than our expectations. As a result, there is a greater risk that reserves set with respect to the collection of such receivables may be inadequate. If our operations in any foreign country are unsuccessful, we could incur significant losses and we may not achieve profitability.

In addition, changes in policies or laws of the United States or foreign governments resulting in, among other things, changes in regulations and the approval process, higher taxation, currency conversion limitations, restrictions on fund transfers or the expropriation of private enterprises, could reduce the anticipated benefits of our international expansion. If we fail to realize the anticipated revenue growth of our future international operations, our business and operating results could suffer.

Beacon does not manufacture the equipment that it relies upon.

Beacon does not and will not have any of its own equipment or manufacturing capacity and must rely on agreements with third parties to supply all products used in Beacon's business. An interruption in the supply of such equipment could harm the business of Beacon.

Beacon's business is subject to inherent risks including those arising from customer acceptance, lost customers, market competition, customer liability and increasing expenses.

Customer Acceptance. Beacon's intended customers may be unfamiliar with the services and technologies offered by Beacon for any number of reasons and therefore hesitant to use Beacon's products and services. As a result, the sales cycle involved in obtaining new customers could be slower and more expensive than initially budgeted. Beacon will need to educate customers as to the benefits of its products and services, which education is costly and time consuming. Thus, Beacon cannot accurately forecast the timing and recognition of revenue from marketing of its products and services to new customers. Delays in market acceptance of Beacon's products and services could harm Beacon.

Lost Customers. There is no guarantee that customers will continue to use the products and services of Beacon. The business is inherently very competitive on a price and service basis and there can be no assurance that Beacon, as a new entrant, will be successful with its business model in attracting and retaining customers.

Competition. There are many companies operating in certain areas of Beacon's basic market niche that have longer operating histories and greater financial, technical, marketing, sales, or other resources when compared to Beacon. While Beacon intends to enter into relationships with third parties to offset these competitive factors, there is no guarantee that Beacon will respond more effectively than its competitors to new or emerging products or changes in customer requirements. Increased competition, either from individual firms or collaborative ventures may harm Beacon's ability to sell products and services on favorable terms, which in turn could lead to price cuts, reduced gross margins, or loss of market share. These factors could seriously harm Beacon's business.

Liability. Beacon's business involves providing customers with mission-critical communications products and services on a 24/7 basis. Failure by Beacon to maintain delivery of these services could place Beacon at risk of litigation and judgments for consequential and punitive damages.

Expense. Beacon plans to grow the businesses it acquires, which will involve incurring increased costs. Beacon will, as a result of such expansion, incur significant expenses arising from multiple necessary activities including attending marketing trade shows and conferences, hiring full-time professional sales and marketing management, consultants, attorneys, and expanding day-to-day operations. There can be no assurance that the incurrence of these costs will have the desired result of increasing revenue to the degree needed to achieve and maintain profitability.

Beacon depends on its key employees.

Beacon is highly dependent on certain officers and employees. The loss of any of their services or Beacon's inability to attract and retain other qualified employees or consultants would have an adverse impact on Beacon's business and its ability to achieve its objectives. Beacon currently intends to attempt to enter into employment and non-compete agreements with all key personnel. These agreements however will permit the employee to resign without cause at any time. There can be no assurance that Beacon will be able to retain existing employees or that it will be able to find, attract and retain other skilled personnel on acceptable terms.

Beacon has no patent protection for its products and services.

None of Beacon's products or services is proprietary to Beacon and, as a result, Beacon enjoys no patent protection. As a result, Beacon has a limited ability to protect what it does against infringement by others, including competitors who are larger and better capitalized than Beacon.

Economic conditions could materially adversely affect us.

Our operations and performance depend significantly on national and worldwide economic conditions. Uncertainty about current national and global economic conditions poses a risk as consumers and businesses may postpone spending in response to tighter credit, negative financial news and/or declines in income or asset values, which could have a material negative effect on the demand for our products and services. Other factors that could influence demand include continuing increases in fuel and other energy costs, conditions in the residential real estate and mortgage markets, labor and healthcare costs, access to credit, consumer confidence, and other macroeconomic factors affecting consumer spending behavior. These and other economic factors could have a material adverse effect on demand for our products and services and on our financial condition and operating results.

The current financial turmoil affecting the banking system and financial markets and the possibility that financial institutions may consolidate or go out of business have resulted in a tightening in the credit markets, a low level of liquidity in many financial markets, and extreme volatility in fixed income, credit, currency and equity markets. There could be a number of follow-on effects from the credit crisis and current economic environment on our business, including insolvency of key customers and suppliers and the inability for us to raise additional working capital to support the growth of our operations.

Changes in regulations, the laws or court rulings could adversely affect Beacon.

Our telecommunications and IT products and services are highly regulated and subject to governmental actions at myriad levels. Changes to laws affecting the telecommunications industry or the economic climate for telecommunications businesses could have a material adverse effect on Beacon's ability to conduct business.

Beacon's quarterly operating results may fluctuate significantly and will be difficult to predict.

Our results of operations will fluctuate significantly from quarter to quarter as a result of a number of factors, including our product development timeline and the rate at which customers accept our products. Accordingly, our future operating results are likely to be subject to variability from quarter to quarter and could be adversely affected in any particular quarter. It is possible that our operating results will be below the expectations of investors. As indicated above, Beacon has incurred losses since its inception.

Past activities of Suncrest Global Energy Corp. and its affiliates may lead to future liability for Beacon.

Before the Share Exchange, Suncrest Global Energy Corp. engaged in businesses unrelated to that of Beacon's operations. Any liabilities relating to such prior business may have a material adverse effect on Beacon. Although we have not identified or been notified of any such liabilities as of December 10, 2009, we can give no assurances as to the existence of any such liabilities.

Catastrophic events or geo-political conditions may disrupt our business.

A disruption or failure of our systems or operations in the event of a major earthquake, weather event, cyber-attack, terrorist attack, or other catastrophic event could cause delays in completing sales, providing services or performing other mission-critical functions. A catastrophic event that results in the destruction or disruption of any of our critical business or information technology systems could harm our ability to conduct normal business operations and our operating results. Abrupt political change, terrorist activity, and armed conflict pose a risk of general economic disruption in affected countries, which may increase our operating costs. These conditions also may add uncertainty to the timing and budget for technology investment decisions by our customers.

Risks Relating to Ownership of Beacon Common Stock

No Assurances of a Public Market; Restrictions on Resale.

Although Beacon Common Stock is eligible for quotation on the NASD Bulletin Board, there is not and has never been a trading market for the Beacon Common Stock. There can be no assurances that any trading market will ever develop in the Beacon Common Stock at any time in the future. Investors must be prepared to bear the economic risk of holding the securities for an indefinite period of time.

Significant number of outstanding convertible notes, options and warrants could interfere with Beacon's ability to raise capital.

Beacon has outstanding convertible notes, options and warrants that are convertible into or exercisable for shares of our common stock. To the extent that outstanding options or warrants are exercised, dilution to the percentage ownership of Beacon's shareholders will occur. In addition, the terms on which Beacon will be able to obtain additional equity capital may be adversely affected if the holders of outstanding options and warrants exercise them at a time when Beacon is able to obtain additional capital on terms more favorable to Beacon than those provided in the outstanding options and warrants.

The price of Beacon Common Stock may fluctuate significantly.

Stock of public companies can experience extreme price and volume fluctuations. These fluctuations often have been unrelated or out of proportion to the operating performance of such companies. Beacon expects its stock price to be similarly volatile. These broad market fluctuations may continue and could harm Beacon's stock price. Any negative change in the public's perception of the prospects of Beacon or companies in Beacon's industry could also depress Beacon's stock price, regardless of Beacon's actual results. Factors affecting the trading price of Beacon's common stock may include:

- variations in operating results;
- announcements of technological innovations, new products or product enhancements, strategic alliances or significant agreements by Beacon or by competitors;
- recruitment or departure of key personnel;
- litigation, legislation, regulation or technological developments that adversely affect Beacon's business; and
- market conditions in Beacon's industry, the industries of their customers and the economy as a whole.

Further, the stock market in general, and securities of microcap companies in particular, can experience extreme price and volume fluctuations. Continued market fluctuations could result in extreme volatility in the price of the Beacon Common Stock, which could cause a decline in the value of Beacon Common Stock. You should also be aware that price volatility might be worse if the trading volume of the Beacon Common Stock is low.

Although our Common Stock is currently traded on the OTC Bulletin Board ("OTC.BB"), trading may be extremely sporadic. There can be no assurance that a more active market for our common stock will develop.

The SEC may limit the number of shares of Beacon Common Stock that may be registered for resale at any one time.

The Federal securities laws distinguish between a primary offering made by an issuer and a secondary offering made by an issuer on behalf of a selling shareholder. Recently, the SEC has made public statements indicating the SEC's Division of Corporation Finance will question the ability of issuers to register shares for resale in a secondary offering where the number of shares offered exceed an estimated one-third of the total number of shares held by non-affiliates prior to the underlying private transaction. Although this position is not written or settled law, it is possible the SEC staff will view any resale offering by investors as an offering by Beacon and deem it a primary offering if the number of shares Beacon seeks to register exceeds the estimated one-third threshold. Even if the number of shares Beacon seeks to register is below the estimated one-third threshold, the SEC staff may still take the position that the offering is a primary offering rather than a secondary offering. In that event, Beacon may seek to register only a portion of its Common Stock at any one time and will only be able to register additional Common Stock after the passage of time and the sale of substantially all of the Registrable Securities subject to the previous registration statement.

Beacon Common Stock may be subject to Penny Stock Rules, which could affect trading.

Broker-dealer practices in connection with transactions in "penny stocks" are regulated by certain rules adopted by the SEC. Penny stocks generally are equity securities with a price of less than \$5.00, subject to exceptions. The rules require that a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, deliver a standardized risk disclosure document that provides information about penny stocks and the risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in connection with the transaction and monthly account statements showing the market value of each penny stock held in the customer's account. In addition, the rules generally require that prior to a transaction in a penny stock the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These disclosure requirements may have the effect of reducing the liquidity of penny stocks. If the Beacon Common Stock becomes subject to the penny stock rules, holders of Beacon Common Stock or other Beacon securities may find it more difficult to sell their securities.

Beacon's operation as a public company subjects it to extensive corporate governance and disclosure regulations that will result in additional operating expenses.

As a public company, Beacon incurs significant legal, accounting and other expenses. Beacon incurs costs associated with its public company reporting requirement and certain requirements under the Sarbanes-Oxley Act of 2002. Like many smaller public companies, Beacon faces a significant impact from required compliance with Section 404 of the Sarbanes-Oxley Act of 2002. Section 404 requires management of public companies to evaluate the effectiveness of internal control over financial reporting and the independent auditors to attest to the effectiveness of such internal controls and the evaluation performed by management. The SEC has adopted rules implementing Section 404 for public companies as well as disclosure requirements. The Public Company Accounting Oversight Board, or PCAOB, has adopted documentation and attestation standards that the independent auditors must follow in conducting its attestation under Section 404. Beacon is currently preparing for compliance with Section 404; however, there can be no assurance that it will be able to effectively meet all of the requirements of Section 404 as currently known to us in the currently mandated timeframe. Any failure to implement effectively new or improved internal controls, or to resolve difficulties encountered in their implementation, could harm Beacon's operating results, cause it to fail to meet reporting obligations or result in management being required to give a qualified assessment of its internal control over financial reporting or its independent auditors providing an adverse opinion regarding management's

assessment. Any such result could cause investors to lose confidence in Beacon's reported financial information, which could have a material adverse effect on its stock price.

If Beacon fails to maintain the adequacy of our internal control, our ability to provide accurate financial statements and comply with the requirements of the Sarbanes-Oxley Act of 2002 could be impaired, which could cause our stock price to decrease substantially.

Beacon will need to continue to improve its financial and managerial controls, reporting systems and procedures, and documentation thereof. If Beacon's financial and managerial controls, reporting systems or procedures fail, it may not be able to provide accurate financial statements on a timely basis or comply with the Sarbanes-Oxley Act of 2002 as it applies to us. Any failure of Beacon's internal controls or its ability to provide accurate financial statements could cause the trading price of Beacon common stock to decrease substantially.

Item 1B. *Unresolved Staff Comments.*

Not Applicable

Item 2. *Properties*

Beacon's executive offices are located at 1311 Herr Lane, Suite 205, Louisville, KY 40222 in 2,142 square feet of office space leased through March 30, 2010. Additionally, we have offices in Louisville, KY consisting of 8,150 square feet of office space leased through December 31, 2010, Cincinnati, OH consisting of 3,675 square feet of office space leased through October 31, 2010, Columbus, OH consisting of 7,018 square feet leased through December 31, 2009, and Siebenn, Switzerland consisting of approximately 1,100 square feet leased on a month to month basis.. We believe our facilities are adequate for the continuing operations of our existing business.

Item 3. *Legal Proceedings*

We are subject to various legal proceedings in the normal course of business, none of which is required to be disclosed under this Item 3.

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

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year ended September 30, 2009.

Part II

Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases for Equity Securities*

Market Information

Our common stock, par value \$.001 per share, has been traded on the OTC Bulletin Board, first under the symbol "BESG.OB" subsequently changed to the symbol "BEAC.OB," since January 7, 2008. Prior to that time, our common stock was traded on the OTC Bulletin Board under the symbol "SGEG.OB."

The public market for our stock is limited and sporadic. The following table sets forth, for the period indicated, the high and low last sale price for our common stock as reported on the OTC Bulletin Board:

Quarter Ended	High	Low
Fiscal 2009		
December 31, 2008	\$1.52	\$0.55
March 31, 2009	\$1.10	\$0.30
June 30, 2009	\$1.65	\$0.69
September 30, 2009	\$1.73	\$0.92
Fiscal 2008		
December 31, 2007	\$ —	\$ —
March 31, 2008	\$1.90	\$1.04
June 30, 2008	\$1.20	\$0.95
September 30, 2008	\$1.50	\$0.51

Holdings

As of December 10, 2009, we had approximately 330 stockholders of record.

Dividends

We have not paid cash dividends on shares of our common stock and do not anticipate doing so in the foreseeable future. The payment of dividends on shares of our common stock will depend on earnings, financial condition and other business and economic factors affecting us at such time as our board of directors may consider relevant.

Under our Articles of Incorporation and the Certificate of Designation of Series B Preferred Stock, without the consent of holders of a majority of each series of the Series A, A-1 and B Preferred Stock, we may not pay any dividends upon shares of Common Stock until we have paid the aggregate accrued dividends upon such preferred stock and such amounts that the holders of such preferred stock would receive if they were to convert their shares of preferred stock into shares of common stock.

Recent Sales of Unregistered Securities

Information related to sales of unregistered securities has been included in our Quarterly Reports on Form 10-Q for the periods ended December 31, 2007, March 31, 2008 and June 30, 2008, December 31, 2008, March 31, 2009 and June 30, 2009 as well as our Current Reports on Form 8-K filed on December 28, 2007, January 11, 2008, January 22, 2008, February 19, 2008, March 13, 2008, March 18, 2008, July 16, 2008, August 6, 2008, August 13, 2008, August 25, 2008, September 8, 2008, September 22, 2008, October 7, 2008, October 9, 2008, October 14, 2008, October 30, 2008, December 9, 2008, January 5, 2009, January 22, 2009, January 28, 2009, February 5, 2009, February 17, 2009, February 20, 2009, February 23, 2009, February 24, 2009, March 11, 2009, March 25, 2009, April 3, 2009, April 10, 2009, April 17, 2009, April 20, 2009, April 29, 2009, May 8, 2009, May 13, 2009, May 19, 2009, June 2, 2009, July 2, 2009, July 23, 2009, August 12, 2009, August 18, 2009, September 01, 2009, October 2, 2009, October 15, 2009, October 19, 2009, November 3, 2009, November 12, 2009, November 24, 2009 and December 15, 2009 and incorporated herein by reference.

Securities Authorized for Issuance Under Compensation Plans

On March 26, 2008, our Board of Directors reserved and authorized 1,000,000 shares of our Common Stock under the 2008 Long-Term Incentive Compensation Plan. This plan was approved by the shareholders on April 16 2009.

Equity Compensation Plan Information

	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
As of September 30, 2009			
Plan Category			
Equity compensation plans approved by security holders	300,000	\$ 1.57	700,000

Issuer Purchases of Equity Securities

None.

Item 7. Management's Discussion and Analysis of Financial Condition, Plans and Results of Operations

Beacon Enterprise Solutions Group, Inc. and subsidiaries (collectively the "Company") is a provider of global, international and regional telecommunications and technology systems infrastructure services, encompassing a comprehensive suite of consulting, design, installation, and infrastructure management offerings. Beacon's portfolio of infrastructure services spans all professional and construction requirements for design, build and management of telecommunications, network and technology systems infrastructure. Professional services offered include consulting, engineering, program management, project management, construction services and infrastructure management services. Beacon offers these services under a comprehensive contract vehicle or unbundled to some global and regional clients. Beacon also offers special services in support of qualified projects in the smart buildings/campuses/cities and data center verticals. Finally, Beacon provides managed information technology and telecommunications services in selected local markets. 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 annual report on Form 10-K, 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 our current plans, expectations and projections about future events. However, such statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements 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:

- Our business may be materially adversely affected by the current economic environment. The recent disruptions in both domestic and global financial and credit markets have significantly impacted domestic and global economic activity and lead to an economic recession. As a result of these disruptions, our customers and markets have been adversely affected. If we experience reduced demand because of these disruptions in the macroeconomic environment, our business, results of operation and financial condition could be materially adversely affected. If we are unable to successfully anticipate changing economic and financial conditions, we may be unable to effectively plan for and respond to these changes and our business could be adversely affected;

- effects of competition in the markets in which we operate;
- liability and other claims asserted against us;
- 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 our actual results to differ materially from the results contemplated by the forward-looking statements, please refer to Item 1(A) Risk Factors in this annual report on Form 10-K. 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, we assume 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”). The Company was originally formed to acquire companies that would allow it to serve the SME 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. In response to identification of a significant un-served market, our business strategy has shifted to become a leading provider of global, international and regional telecommunications and technology systems infrastructure services, encompassing a comprehensive suite of consulting, design, installation, and infrastructure management offerings, while continuing to provide managed information technology and telecommunications services in selected local markets.

Beacon was a development stage enterprise with no operating history until the completion of the share exchange transaction in which the shareholders of Beacon became 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

On December 20, 2007, Beacon acquired the substantially all of the assets and assumed certain liabilities of Advance Data Systems, Inc., CETCON Inc., and Strategic Communications, Inc. under the terms of three separate asset purchase agreements. In addition, Beacon acquired substantially all of the assets and certain liabilities of Bell-Haun Systems Inc. in a stock purchase agreement. These acquisitions are referred to as the “Phase I Acquisitions.”

During the year ended September 30, 2008, Beacon focused on the consolidation of various operational elements of the Phase I Acquisitions into a single core infrastructure. For further information regarding these acquisitions, please see Note 4 to the consolidated financial statements.

Acquisition Growth Strategy

We are continuing to pursue mergers and acquisitions for a portion of our growth.

On July 30, 2009 we completed the acquisition of Symbiotec Solutions AG located outside Zurich Switzerland. This has been renamed Beacon Solutions AG, relocated to a new facility in Altendorf, and engaged in a number of projects supporting our global accounts.

A key component of our growth strategy is through strategic acquisitions. These potential acquisition candidates must meet specific criteria including the following;

- Accretive to earnings in the first year.
- Strategic locations throughout the US and Europe where we have significant concentrations of demand for our service offerings.
- Highly trained technical staff that can meet our internal requirements and the requirements of our Global customers.

We may not continue to be successful in our search for potential acquisition candidates that are acceptable for our business model, or we may not be successful in our attempts to acquire new businesses that we have identified as attractive acquisition candidates.

Organic Growth Strategy

With respect to our plans to increase revenue organically, we have identified, and are currently pursuing, several significant strategies;

- The first strategy is to expand the a la carte services offered to existing major national, multi-national and global clients who have not already signed an infrastructure managed services agreement. This has been initiated by the hiring of branch level account managers focused on the sale of individual infrastructure services and the global managed services offering. With reorganization of the professional services team structure, it permits Beacon to accommodate branch level services delivery to potential global clients.
- The second strategy is to continue to add regional branches to the existing branches in Columbus and Cincinnati, Ohio, Louisville, Kentucky and Raritan, NJ. The additional branches will be strategically located to provide regional coverage and depth of resources to support global client demand.
- The third strategy is to add regional and major account sales resources in each new branch. This will facilitate the introduction of Fortune 1000, Global 2000 and qualifying multi-national firms. We refer to these current and future clients as Fortune 10000.

Results of Operations

For the years ended September 30, 2008 and 2009

Revenue for the year ended September 30, 2008 and 2009 was approximately \$6.0 million and \$11.1 million. The revenue growth was lead by our Information Transport Systems Managed Services, which was initiated during the year ended September 2009 and accounted for approximately \$1.2 million of revenue. The revenue from this new service offering, which is included with the Time and Material Contracts in Note 3, was generated from a signed contract to provide such Services to one of the world's premier pharmaceutical and consumer health products companies operating over 250 businesses. Under the terms of the contract, we 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. Revenue growth was further attributable to the acquisition of Symbiotec, which added approximately \$1.0 million of revenue, and sales growth of \$1.4 million from a strategic marketing agreement under which we provide procurement and installation services as a subcontractor.

Due to the sales growth our cost of goods sold for the years ended September 30, 2008 and 2009, which amounted to approximately \$3.3 million and \$7.5 million, also rose. The increase was primarily due to material costs increase from the year ended September 30, 2008 of \$1.8 million to \$4.6 million for the year ended September 30, 2009, thus accounting for approximately \$2.8 million of the cost of goods increase. Additionally our subcontractor costs rose from \$1.5 million to \$2.9 million for the years ended September 30, 2008 and 2009, a portion of which was incurred to support our new Information Transport Systems Managed Services offering.

Salaries and benefits of approximately \$3.2 million and \$4.5 million for the years ended September 30, 2008 and 2009 respectively, consisted of salaries and wages of approximately \$2.3 million and \$2.9 million, commissions of \$119,000 and \$330,000, benefits of \$251,000 and \$283,000, payroll taxes of \$268,000 and \$376,000, the increase in each attributable to increased headcount for the year ended September 30, 2009. Additionally the company match of employee contributions to the 401k plan decreased from \$71,000 to \$37,000 for the years ended September 30, 2008 and 2009, respectively due to a change in the matching program based on company profitability. Non-cash share-based compensation of \$280,000 and \$558,000 related primarily to restricted stock and stock options that vested during the period, the increase for the year ended September 30, 2009 attributable to options to purchase 3,110,000 additional shares granted, is included in salaries and wages.

Selling, general and administrative expense for the years ended September 30, 2008 and 2009 of approximately \$3.5 million and \$4.3 million include approximately \$428,000 and \$462,000 of accounting and professional fees, and a charge for bad debt expense of \$50,000 and \$143,000 the increase of which takes into account sales growth and economic conditions for the year ended September 30, 2009. As part of our plan to increase visibility with the investing public we increased spending on investor relations accounting for approximately \$107,000 and \$1.4 million. Due to our expanding business and in order to fully integrate our offices, telecommunications expense increased from approximately \$129,000 to \$226,000, travel and related expenses increased from \$221,000 to \$374,000, and business insurance expenses increased from \$153,000 to \$174,000, year over year. Administrative services expenses decreased from \$575,000 to \$100,000 due to the cost of the Suncrest acquisition (Note 1) and related integration costs thereof incurred in the year ended September 30, 2008. Finally other selling, general and administrative expenses included, \$501,000 and \$461,000 of amortization expense related to intangible assets, \$70,000 and \$153,000 of depreciation and \$132,000 and \$134,000 of miscellaneous outside services.

Interest expense of approximately \$610,000 and \$905,000 for the years ended September 30, 2008 and 2009 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 \$227,000 and \$302,000 for the years ended September 30, 2008 and 2009, and \$158,000 and \$289,000 related to warrants earned in connection with certain equity financing arrangements.

Contractual dividends on our Series A and A-1 Preferred Stock amounted to approximately \$220,000 and \$548,000 for the years ended September 30, 2008 and 2009. Of these amounts, \$220,000 and \$38,000 was included in accrued expenses as of September 30, 2008 and 2009, respectively. Deemed dividends related to the beneficial conversion feature embedded in our Series A, A-1 and B Preferred Stock of approximately \$4.2 million and \$266,000 was recognized during the years ended September 30, 2008 and 2009.

Liquidity and Capital Resources

We incurred a net loss of approximately (\$6.3) million and used approximately (\$4.3) million of cash in our operating activities for the year ended September 30, 2009. At September 30, 2009, our accumulated deficit amounted to approximately (\$16.3) million. We had cash of \$264,000 and a working capital deficit of approximately (\$1.5) million at September 30, 2009.

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 the following:

On July 25, 2008, we engaged a registered broker-dealer (the “Placement Agent”) in a private placement (\$.80 per unit) (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”). During the nine months ended June 30, 2009 we sold 367,099 units for net proceeds of \$239,290 (gross proceeds of \$293,679 less offering costs of \$54,389).

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. 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 27, 2009 we sold 4,277,050 units for net proceeds of \$2,642,465 (gross proceeds of \$3,421,640 less offering costs of \$779,175).

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 was reduced on a dollar for dollar basis as we raised additional equity capital in various private placements. On May 13, 2009, the director agreed to renew the commitment and increase the available financing under the arrangement to \$1.8 million in exchange for a continuation of the ongoing grants of warrants to purchase 33,333 shares of common stock at \$1.00 per share through August 11, 2009. On August 10, 2009 the facility was renewed to increase the available financing to \$3.0 million through July 1, 2010 on substantially the same terms but has since been reduced on a dollar for dollar basis to zero availability as additional equity capital has been raised from financing transactions.

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. During the period ended September 30, 2009, we repaid \$202,000 of the convertible notes.

On March 31, 2009, we executed an extension of our \$100,000 demand note with First Savings Bank, the terms of which are substantially the same as the original agreement, with payments initially due May 15 and June 15, 2009 in the amount of \$50,000 each plus accrued interest. We paid \$50,000 of this note. On July 24, 2009 an additional extension was executed through August 31, 2009, and further extended on October 29, 2009 through December 30, 2009.

On June 5, 2009, Beacon engaged a registered broker-dealer in a private placement of Common Stock and Warrants to raise \$600,000 of equity financing with an option to raise an additional \$400,000 if the offering was oversubscribed. On July 9, 2009, we opted to increase this offering to \$2.5 million. As of

August 31, 2009, we sold 1,846,847 units for net proceeds of \$1,212,620 (gross proceeds of \$1,479,930 less offering costs of \$267,310) when we completed this offering.

On September 28, 2009, we engaged a registered broker-dealer in a private placement of Common Stock and Warrants to raise \$3,000,000 of equity financing with an option to raise an additional \$1,000,000 if the offering is oversubscribed. As of December 15, 2009, we sold 4,090,000 units for net proceeds of \$2,673,480 (gross proceeds of \$3,272,000 less offering costs of \$598,520) when we completed the offering.

On October 19, 2009, we announced an authorization to proceed with providing global network infrastructure services to one of our Fortune 100 customers under a three year agreement worth approximately \$27 million in revenue, of which we have received a customer deposit of approximately \$0.4 million related to initiation of the project that began early in the fourth quarter of fiscal 2009.

On November 11, 2009, we announced a \$24.8 million data center construction management engagement beginning immediately with the first phase, worth approximately \$13.0 million in revenue, due to complete on or before September 30, 2010. As of December 10, 2009, we have received customer deposits of approximately \$3.7 million to fund the project.

We completed our acquisition of Symbiotec AG (Note 4), on July 29, 2009, subsequently executing certain commercial agreements that we believe represent significant milestones in the execution of our business plan. As a result we anticipate being able to generate positive cash flows in our operating activities during the year end September 30, 2010.

Based on the recent progress we made in the execution of our business plan, we believe that our currently available cash, the proceeds of our equity financing activities, and funds we expect to generate from operations will enable us to effectively operate our business and repay our debt obligations as they become due through October 1, 2010. However, we will require additional capital in order to execute our business plan. If we are unable to raise additional capital, or encounter unforeseen circumstances that place constraints on our capital resources, 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 three operating lease commitments for real estate used for office space and production facilities.

Contractual Obligations as of September 30, 2009:

The following is a summary of our contractual obligations as of September 30, 2009:

Contractual Obligations	Total	Payment Due by Period			
		Year 1	Years 2-3	Years 4-5	Thereafter
Debt obligations	\$ 2,292,561	\$ 1,490,226	\$ 698,618	\$ 103,717	
Interest obligations(1)	162,109	95,875	64,525	1,709	
Operating lease obligations(2)	142,823	123,423	19,400		
	<u>\$ 2,597,493</u>	<u>\$ 1,709,524</u>	<u>\$ 782,543</u>	<u>\$ 105,426</u>	<u>\$ —</u>

- (1) Interest obligations assume Prime Rate of 3.25% at September 30, 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 are 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 year ending September 30, 2010 in cash, the total obligation would be \$370,000 based on the number of shares of Series A, A-1 and B Preferred Stock outstanding as of September 30, 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 \$500,000 for the year ended September 30, 2010 and could be curtailed should we experience a shortfall in expected financing.

Working Capital

As of September 30, 2009, our current liabilities exceed current assets by approximately (\$1.5) million. The bridge notes recorded in current liabilities are convertible into common stock and the note agreements provide for vesting of additional warrants to purchase shares of common should the holders continue to hold the debt and immediate vesting of the additional warrants upon conversion.

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Item 8. Financial Statements and Supplementary Data

Consolidated Financial Statements of Beacon Enterprise Solutions Group, Inc.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Audit Committee of the
Board of Directors and Stockholders
Beacon Enterprise Solutions Group, Inc
1311 Herr Lane, Suite 205
Louisville, KY 40222

We have audited the accompanying consolidated balance sheets of Beacon Enterprise Solutions Group, Inc and Subsidiaries (the "Company") as of September 30, 2008 and 2009, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Beacon Enterprise Solutions Group, Inc and subsidiaries, as of September 30, 2008 and 2009, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in The United States of America.

New York, NY

Beacon Enterprise Solutions Group, Inc. and Subsidiaries
Consolidated Balance Sheets

	September 30, 2008	September 30, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 127,373	\$ 264,338
Accounts receivable, net	1,505,162	3,980,715
Inventory, net	597,794	604,622
Prepaid expenses and other current assets	44,745	397,319
Total current assets	2,275,074	5,246,994
Property and equipment, net	310,703	394,571
Goodwill	2,791,648	3,151,948
Other intangible assets, net	3,802,717	3,903,124
Other assets	176,249	117,111
Total assets	<u>\$ 9,356,391</u>	<u>\$ 12,813,748</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short term credit obligations	\$ 200,000	\$ 550,000
Convertible Note Payable		297,999
Bridge notes (net of \$0 and \$33,123 aggregate discounts)	—	166,879
Current portion of long-term debt	495,595	475,348
Accounts payable	1,225,509	2,176,845
Contingent consideration payable		145,189
Income tax payable	—	97,581
Accrued expenses	1,337,360	2,644,280
Customer Deposits	95,767	160,368
Total current liabilities	3,354,231	6,714,489
Long-term debt, less current portion	1,316,477	802,335
Bridge notes (net of \$128,840 discount at September 30, 2008)	571,160	
Deferred Tax Liability	45,472	103,484
Total liabilities	5,287,340	7,620,308
Stockholders' equity		
Stockholders' equity		
Preferred Stock: \$0.01 par value, 5,000,000 shares authorized, 5,200 and 3,984 shares outstanding in the following classes:		
Series A convertible preferred stock, \$1,000 stated value, 4,500 authorized, 4,000 and 1,984 shares issued and outstanding, (liquidation preference \$3,171,999)	4,000,000	\$ 1,984,074
Series A-1 convertible preferred stock, \$1,000 stated value, 1,000 shares authorized, 800 and 752 shares issued and outstanding, (liquidation preference \$940,678)	800,000	752,347
Series B convertible preferred stock, \$1,000 stated value, 4,000 shares authorized, 400 and 700 shares issued and outstanding, (liquidation preference \$914,818)	400,000	700,000
Common stock, \$0.001 par value 70,000,000 shares authorized, 12,093,021 and 24,655,990 shares issued and outstanding	12,093	24,656
Additional paid in capital	8,027,602	\$ 17,977,046
Accumulated deficit	(9,170,644)	(16,254,545)
Accumulated other comprehensive income		9,862
Total stockholders' equity	4,069,051	5,193,440
Total liabilities and stockholders' equity	<u>9,356,391</u>	<u>12,813,748</u>

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

Beacon Enterprise Solutions Group, Inc. and Subsidiaries

Consolidated Statements of Operations

	For the Year Ended September 30, 2008	For the Year Ended September 30, 2009
Net sales	\$ 6,012,637	\$ 11,070,496
Cost of goods sold	1,796,460	4,577,261
Cost of services	1,500,390	2,915,803
Gross profit	2,715,787	3,577,432
Operating expense		
Salaries and Wages	3,199,378	4,489,947
Selling, General and Administrative	3,515,840	4,297,342
Total operating expense	6,715,218	8,787,289
Loss from operations	(3,999,431)	(5,209,857)
Other (expenses) income		
Interest expense	(610,051)	(905,125)
Interest income	7,416	725
Total other (expenses)	(602,635)	(904,400)
Net (loss) before income taxes	(4,602,066)	(6,114,257)
Income taxes	45,472	155,593
Net (loss)	(4,647,538)	(6,269,850)
Series A, A-1 and B Preferred Stock:		
Contractual dividends	(220,354)	(547,676)
Deemed dividends related to beneficial conversion feature	(4,169,372)	(266,375)
Net (loss) available to common stockholders	(9,037,264)	(7,083,901)
Net loss per share to common stockholders — basic and diluted	\$ (0.95)	\$ (0.43)
Weighted average shares outstanding — basic and diluted	9,466,764	16,482,449
Other Comprehensive income, net of tax		
Net Loss	\$ (9,037,264)	\$ (7,083,901)
Foreign currency translations adjustment	*	9,862
Comprehensive loss	\$ (9,037,264)	\$ (7,074,039)

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

Beacon Enterprise Solutions Group, Inc. and Subsidiaries

Condensed Consolidated Statement of Stockholders' Equity
For the years ended September 30, 2008 and 2009

	Series A Convertible Preferred Stock		Series A-1 Convertible Preferred Stock		Series B Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
	Shares	\$1,000 Stated Value	Shares	\$1,000 Stated Value	Shares	\$1,000 Stated Value	Shares	\$0.001 Par Value				
Balance at October 1, 2007							5,187,650	\$ 5,188	\$ (812)	\$ (133,380)		\$ (129,004)
Common stock granted to employee for services							782,250	782	(782)			—
Vested portion of common stock granted to employee for services									266,693			266,693
Shares of Suncrest outstanding at time of share exchange							1,273,121	1,273	(1,273)			—
Common stock issued as purchase consideration in business combinations							3,225,000	3,225	2,738,025			2,741,250
Series A Preferred Stock issued in private placement	4,000.0	4,000,000										4,000,000
Series A-1 Preferred Stock issued in private placement			800.0	800,000								800,000
Series B Preferred Stock issued in private placement					400	400,000						400,000
Common Stock issued in private placement							1,625,000	1,625	1,298,375			1,300,000
Private placement offering costs									(1,188,324)			(1,188,324)
Beneficial conversion feature — deemed preferred stock dividend									4,169,372	(4,169,372)		—
Bridge note warrants									72,000			72,000
Beneficial conversion feature — bridge notes									128,000			128,000
Vested contingent bridge warrants									77,980			77,980
Warrants issued for equity financing agreement									235,699			235,699
Compensatory warrants									219,000			219,000
Interest on Put Options									—			—
Series A Preferred Stock contractual dividends										(194,904)		(194,904)
Series A-1 Preferred Stock contractual dividends										(25,450)		(25,450)
Issuance of Stock Options									13,649			13,649
Net loss										(4,647,538)		(4,647,538)
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									558,235			558,235
Conversion of debt to Preferred shares					300	300,000						300,000
Conversion of debt to common shares							833,334	833	499,167			500,000
Conversion of Preferred shares to common	(2,635)	(2,635,049)	(159)	(158,598)	—	—	3,724,854	3,726	2,789,921	—		—
Common Stock issued in private placement							6,853,497	6,853	5,478,396			5,485,249
Private placement offering costs									(1,138,574)			(1,138,574)
Warrants exercised for common shares							196,145	196	(196)			(0)
Shares issued for Symbio — Tec acquisition							400,000	400	436,455			436,855

Beacon Enterprise Solutions Group, Inc. and Subsidiaries
Condensed Consolidated Statement of Stockholders' Equity — (Continued)
For the years ended September 30, 2008 and 2009

	Series A Convertible Preferred Stock		Series A-1 Convertible Preferred Stock		Series B Convertible Preferred Stock		Common Stock		Additional		Accumulated	
	Shares	\$1,000 Stated Value	Shares	\$1,000 Stated Value	Shares	\$1,000 Stated Value	Shares	\$0.001 Par Value	Paid-In Capital	Deficit	Other Comprehensive Income	Total
Fair value of contingent shares related to Symbio-Tec acquisition									476,000			476,000
Shares committed to Anti-dilution adjustment							285,139	285	(285)			0
Common Stock issued for investor relations agreements							270,000	270	163,830			164,100
Beneficial conversion feature — deemed preferred stock dividend									200,676	(200,676)		—
Discount on Convertible Notes Payable									74,334			74,334
Vested contingent bridge warrants									56,840			56,840
Warrants issued for equity financing agreement									288,946			288,946
Series A Preferred Stock contractual dividends										(429,834)		(429,834)
Series A Preferred Stock contractual dividends paid in kind	619	619,123										619,123
Series A-1 Preferred Stock contractual dividends										(85,689)		(85,689)
Series A-1 Preferred Stock contractual dividends paid in kind			111	110,945								110,945
Series B Preferred Stock contractual dividends										(32,153)		(32,153)
Beneficial conversion feature — deemed Investor Warrant dividend									65,699	(65,699)		—
Net loss										(6,269,850)		(6,269,850)
Net change in accumulated other comprehensive income											9,862	9,862
Total comprehensive income												
Balance at September 30, 2009	1,984	\$ 1,984,074	752	\$ 752,347	700	\$ 700,000	24,655,990	\$ 24,656	\$ 17,977,046	\$ (16,254,545)	\$ 9,862	\$ 5,193,440

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

Beacon Enterprise Solutions Group, Inc. and Subsidiaries
Consolidated Statements of Cash Flows

	For the Year Ended September 30, 2008	For the Year Ended September 30, 2009
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (4,647,538)	\$ (6,269,850)
Adjustments to reconcile net loss to net cash used in operating activities:		
Change in reserve for obsolete inventory	35,058	125,441
Change in reserve for doubtful accounts	50,000	107,771
Depreciation and Amortization	571,467	613,080
Non-cash interest	384,839	590,837
Share based payments	499,342	722,336
Deferred income tax liability	45,472	58,012
Changes in operating assets and liabilities:		
Accounts receivable	(866,161)	(2,444,628)
Inventory	(174,861)	(132,269)
Prepaid expenses and other current assets	32,691	(325,092)
Other assets	131,227	59,137
Accounts payable	403,365	903,973
Income taxes payable		97,581
Customer deposits	(241,866)	64,601
Accrued expenses	935,132	1,501,244
NET CASH USED IN OPERATING ACTIVITIES	(2,841,833)	(4,327,826)
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(154,070)	(220,438)
Acquisition of businesses, net of acquired cash	(2,223,535)	46,202
NET CASH USED IN INVESTING ACTIVITIES	(2,377,605)	(174,236)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuances of convertible notes		500,000
Proceeds from issuances of bridge notes and other short term notes	422,000	700,000
Proceeds from sale of preferred stock, net of offering costs	4,276,460	—
Proceeds from sale of common stock, net of offering costs	1,035,216	4,346,672
Proceeds from lines of credit	400,000	343,000
Proceeds from note payable	600,000	—
Payment of note offering costs		(75,000)
Repayment of line of credit	(450,000)	(393,000)
Repayment of convertible notes		(202,001)
Payments of notes payable	(985,514)	(534,389)
Payments of capital lease obligations	(13,562)	(11,928)
NET CASH PROVIDED BY FINANCING ACTIVITIES	5,284,600	4,673,354
NET INCREASE IN CASH AND CASH EQUIVALENTS	65,162	171,292
CASH AND CASH EQUIVALENTS — BEGINNING OF YEAR	62,211	127,373
Effect of exchange rates on chase and cash equivalents		(34,327)
CASH AND CASH EQUIVALENTS — END OF YEAR	\$ 127,373	\$ 264,338
Cash paid for:		
Interest	115,587	\$ 104,715
Income taxes	—	\$ 105,266
Acquisition of businesses		
Accounts receivable	689,001	\$ 133,516
Inventory	618,601	—
Prepaid expenses and other current assets	55,283	26,567
Property and equipment	226,743	15,000
Goodwill	2,791,649	360,300
Customer relationships	3,874,074	349,100
Non-compete agreements	430,000	212,300
Security deposits	27,591	—
Line of credit	(250,000)	—
Accounts payable and accrued expenses	(932,276)	(84,941)
Customer deposits	(292,692)	—
Long-term debt assumed	(354,199)	—
Capital lease obligations	(25,490)	—
Other acquisition liabilities	(50,000)	(145,189)
Less: share based purchase consideration	(2,741,250)	(912,855)
Less: acquisition notes issued to sellers of acquired businesses	(1,843,500)	—
Cash used in acquisition of businesses (net of \$148,283 and \$46,202 of cash acquired)	2,223,535	\$ (46,202)

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

BEACON ENTERPRISE SOLUTIONS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(amounts in thousands, except share and per share data)

NOTE 1 — ORGANIZATION AND DESCRIPTION OF BUSINESS

Organization

The consolidated financial statements presented are those of Beacon Enterprise Solutions Group, Inc., which was originally formed in the State of Indiana on June 6, 2007 and combined with Suncrest Global Energy Corp. a Nevada corporation, on December 20, 2007, as described in “Share Exchange Transaction,” below. In these footnotes to the consolidated financial statements, the terms “Company,” “Beacon,” “we,” “us” or “our” mean Beacon Enterprise Solutions Group, Inc. and all subsidiaries included in our consolidated financial statements.

Beacon provides global, international and regional telecommunications and technology systems infrastructure services, encompassing a comprehensive suite of consulting, design, installation, and infrastructure management offerings. Beacon’s portfolio of infrastructure services spans all professional and construction requirements for design, build and management of telecommunications, network and technology systems infrastructure. Professional services offered include consulting, engineering, program management, project management, construction services and infrastructure management services. Beacon offers these services under either a comprehensive contract option or unbundled to some global and regional clients.

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”). The Company was originally formed to acquire companies that would allow it to serve the SME 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. In response to identification of a significant unserved market, our business strategy has shifted to become a leading provider of global, international and regional telecommunications and technology systems infrastructure services, encompassing a comprehensive suite of consulting, design, installation, and infrastructure management offerings, while continuing to provide managed information technology and telecommunications services in selected local markets.

Beacon (IN) was a development stage enterprise with no operating history until completing the Share Exchange Transaction described below and simultaneous business combinations (the “Phase I Acquisitions”) and certain Private Placement financing transactions described in Notes 4 and 14, respectively.

Share Exchange Transaction

Pursuant to a Securities Exchange Agreement, Suncrest acquired all of the outstanding no par value common stock of Beacon (IN) on December 20, 2007. Suncrest, in exchange for such Beacon (IN) common stock issued 1 share of Suncrest \$0.001 par value common stock directly to Beacon (IN)’s stockholders for each share of Suncrest common stock (the “Share Exchange Transaction”). Following the Share Exchange Transaction, the existing stockholders of Suncrest retained 1,273,121 shares of Suncrest’s outstanding common stock and Beacon (IN)’s stockholders became the majority owners of Suncrest. Suncrest was incorporated in the State of Nevada on May 22, 2000. Beacon paid a \$305,000 fee to the stockholders of Suncrest in connection with completing the Share Exchange Transaction which is included as a component of selling, general and administrative expense in the accompanying consolidated statement of operations for the year ended September 30, 2008.

Prior to the Share Exchange Transaction, Suncrest was a publicly-traded corporation with nominal operations. After the Share Exchange Transaction, Suncrest was the surviving legal entity and Beacon (IN) was its wholly-owned subsidiary and Suncrest. Suncrest changed its name to Beacon Enterprise Solutions Group, Inc. on February 15, 2008 and continued to carry on the operations of Beacon. The Share Exchange Transaction was accounted for as a reverse merger and recapitalization transaction in which the original

BEACON ENTERPRISE SOLUTIONS GROUP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Beacon (IN) is deemed to be the accounting acquirer. Accordingly, the accompanying consolidated financial statements present the historical financial position, results of operations and cash flows of Beacon, adjusted to give retroactive effect to the recapitalization of Beacon (IN) into Suncrest.

NOTE 2 — LIQUIDITY AND FINANCIAL CONDITION

We incurred a net loss of approximately \$6.3 million and used approximately \$4.3 million of cash in our operating activities for the year ended September 30, 2009. At September 30, 2009, our accumulated deficit amounted to approximately \$16.3 million. We had cash of \$264,000 and a working capital deficit of.

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.

Financing transactions we completed during the year ending September 30, 2009 include the following:

On July 25, 2008, we engaged a registered broker-dealer in a private placement (\$.80 per unit) (the “July Common Offering”) of up to 3,750,000 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. During the year ended September 30, 2009 we sold 367,099 units for net proceeds of \$239,290 (gross proceeds of \$293,679 less offering costs of \$54,389).

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. 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 27, 2009 we sold 4,277,050 units for net proceeds of \$2,642,465 (gross proceeds of \$3,421,640 less offering costs of \$779,175).

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 was reduced on a dollar for dollar basis as we raised additional equity capital in various private placements. On May 13, 2009, the director agreed to renew the commitment and increase the available financing under the 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 through August 11, 2009. On August 10, 2009 the facility was renewed to increase the available financing to \$3.0 million through July 1, 2010 on substantially the same terms but has

BEACON ENTERPRISE SOLUTIONS GROUP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

since been reduced on a dollar for dollar basis to zero availability based on additional equity capital raised in financing transactions.

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. During the period ended September 30, 2009, we repaid \$202,000 of the outstanding principal balance was repaid to the holders of the convertible notes.

On March 31, 2009, we executed an extension of our \$100,000 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 repaid \$50,000 of this note. On July 24, 2009 an additional extension was executed through August 31, 2009, and further extended on October 29, 2009 through December 30, 2009.

On June 5, 2009, Beacon engaged a registered broker-dealer in a private placement of Common Stock and Warrants to raise \$600,000 of equity financing with an option to raise an additional \$400,000 if the offering was oversubscribed. On July 9, 2009, we opted to increase this offering to \$2.5 million. As of September 30, 2009, we sold 1,846,847 units for net proceeds of \$1,212,620 (gross proceeds of \$1,479,930 less offering costs of \$267,310) when we completed this offering.

On September 28, 2009, we engaged a registered broker-dealer in a private placement of Common Stock and Warrant to raise \$3,000,000 of equity financing with an option to raise an additional \$1,000,000 if the offering is oversubscribed. As of December 15, 2009, we sold 4,090,000 units for net proceeds of \$2,673,480 (gross proceeds of \$3,272,000 less offering costs of \$598,520) when we completed the offering. Of the units sold, 362,500 of these shares were sold as of the year ended September 30, 2009 for net proceeds of \$252,300 (gross proceeds of \$290,000 less offering costs of \$37,700).

We completed our acquisition of Symbiotec AG (Note 4), on July 29, 2009, subsequently executing certain commercial agreements that we believe represent significant milestones in the execution of our business plan. As a result we anticipate being able to generate positive cash flows in our operating activities during the year end September 30, 2010.

Based on the recent progress we made in the execution of our business plan, we believe that our currently available cash, the proceeds of our equity financing activities, and funds we expect to generate from operations will enable us to operate our business and repay our debt obligations as they become due through October 1, 2010. However, we will require additional capital in order to execute our business plan. If we are unable to raise additional capital, or encounter unforeseen circumstances that place constraints on our capital resources, 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 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The 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, BH Acquisition Corp, BESG Ireland Ltd. and Beacon Solutions AG. All significant inter-company accounts and transactions have been eliminated in consolidation.

BEACON ENTERPRISE SOLUTIONS GROUP, INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)****Use of Estimates**

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") 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 revenues and expenses during the reporting period. Actual results could differ 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. Certain of our estimates, including accounts receivable and inventory reserves and the carrying amounts of intangible assets could be affected by external conditions such as the current national and global economic downturn. It is at least reasonably possible that these external factors could have an effect on our estimates that could cause actual results to differ from our estimates. We intend to re-evaluate all of our accounting estimates at least quarterly based on these conditions and record adjustments, when necessary; however, we are currently unable to determine whether adjustments due to changes in our estimates would be material.

Revenue and Cost Recognition

Beacon applies the revenue recognition principles set forth under the Securities and Exchange Commission's Staff Accounting Bulletin ("SAB") 104 with respect to all of our revenue. Accordingly, we recognize revenue when (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred, (iii) the vendor's fee is fixed or determinable, and (iv) collectability is probable. We generated approximately \$6.0 million and \$11.1 million of revenue during the years ended September 30, 2008 and 2009, respectively.

Time and Materials Contracts — Revenues from 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. A substantial majority of our services in this category are completed in short periods of time. Under the terms of our time and materials contracts, we generally bifurcate materials from installation services as elements of our contracts that have stand alone value. We bill our customers for material purchases under these contracts at the time of delivery, at which time our customers take title to the goods and assume the risk of loss. We bill our customers for installation services over the term of the project following the completion of contractually delivered milestones. We may, on occasion, enter into longer-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 revenues of approximately \$3,100,000 and \$6,700,000 from short-term time and materials contracts for the years ended September 30, 2008 and 2009 respectively. Beacon warranties all phone system installations for 1 year, for which we have accrued \$47,000 and \$65,000 as of the years ended September 30, 2008 and 2009.

Professional Services Revenue — We generally bill our customers for professional telecommunications and data consulting services based on hours of time spent on any given assignment at our hourly billing rates. As it relates to delivery of these services, we recognize 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. We may, from time to time, enter into fixed bid contracts, and recognize revenue as phases of the project are completed and accepted by the client. We generated approximately \$2,900,000 and \$4,200,000 of professional services revenue during the years ended September 30, 2008 and 2009 respectively.

BEACON ENTERPRISE SOLUTIONS GROUP, INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

We account 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.

Foreign Currency Reporting

The consolidated financial statements are presented in United States Dollars in accordance with ASC 830, "Foreign Currency Matters". Accordingly, the Company's subsidiary, Beacon AG uses the local currency (Swiss Francs) as its functional currency. Assets and liabilities are translated at exchange rates in effect at the balance sheet date, and revenue and expense accounts are translated at average exchange rates during the period. Resulting translation adjustments of \$0 and \$9,862 were recorded in accumulated other comprehensive income in the accompanying consolidated balance sheets at September 30, 2008 and 2009.

Customer Concentration

For the years ended September 30, 2008 and 2009, our largest customer accounted for approximately 19% and 25% of sales, respectively. Although we expect we will continue to have a high degree of customer concentration our customer engagements are typically covered by multi-year contracts or master service agreements under which we and our predecessor companies have been operating for a number of years. In addition, current economic conditions could harm the liquidity and financial condition of our customers or suppliers, which could in turn cause such parties to fail to meet their contractual or other obligations to us.

Advertising Expense

Advertising costs are expensed as incurred. Advertising expense amounted to approximately \$42,000 and \$50,000 for the years ended September 30, 2008 and 2009.

Cash and Cash Equivalents

Beacon considers all highly liquid investments purchased with an original maturity date of three months or less to be cash equivalents. Due to their short-term nature, cash equivalents, when they are carried, are carried at cost, which approximates fair value.

Accounts Receivable

Accounts receivable include customer billings on invoices issued by us after the service is rendered or the revenue earned. Credit is extended based on an evaluation of our customer's financial condition and advance payment for services is generally required for many of our services. Credit losses have been provided for in the financial statements and are within management's expectations.

We have established an allowance for doubtful accounts as an estimate of potential credit risk due to current market conditions. We perform ongoing credit evaluation of our customers' financial condition when we deem appropriate and we typically require a deposit of 50% of the value of the contract for long term time and material agreements. Many of our contracts allow for the filing of a mechanics lien on equipment delivered and installed should the customer become delinquent in payment. Beacon has a policy of reserving for uncollectible accounts based on its best estimate of the amount of probable credit losses based on, among other things, historical collection experience, a review of the current aging status of customer receivables, a review of specific information for those customers deemed to be higher risk and other external factors including the current economic environment and conditions in the credit markets could affect the ability of our customers to make payments. We evaluate the adequacy of the allowance for doubtful account at least quarterly. Unfavorable changes in economic conditions might impact the amounts ultimately collected from our customers and therefore could result in changes to the estimated allowance and future results of operations

BEACON ENTERPRISE SOLUTIONS GROUP, INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

could be materially affected. Account balances deemed to be uncollectible or otherwise settled with a customer are charged to the allowance for doubtful accounts after all means of collection have been exhausted and the potential for recovery is considered remote. We currently believe the majority of our receivables are collectible due to the nature of the industry and the substantial customer deposits initially received at contract inception. The allowance for doubtful accounts amounted to \$50,000 and \$173,000 as of September 30, 2008 and 2009.

Inventory

Inventory, which consists of business telephone systems and associated equipment and parts, is stated at the lower of cost (first-in, first-out method) or market. In the case of slow moving items, we may write down or calculate a reserve to reflect a reduced marketability for the item. The actual percentage reserved will depend on the total quantity on hand, its sales history, and expected near term sales prospects. When we discontinue sales of a product, we will write down the value of inventory to an amount equal to its estimated net realizable value less all applicable disposition costs. Slow moving items include spare parts for older phone systems that we use to repair or upgrade customer phone systems. A portion of these items, which are stated at their net realizable value, are likely to be used after the next year and are therefore presented as non-current inventory in the accompanying consolidated balance sheet. A portion of the inventory on hand at September 30, 2008 and 2009 includes goods acquired in the business combinations completed on December 20, 2007. These goods are stated at the net realizable value established using the purchase method of accounting (Note 4) less a reserve for obsolete inventory as phone systems for which we carry spare parts are discontinued and diminish in the marketplace.

Property and Equipment

Property and equipment is stated at cost, including any cost to place the property into service, less accumulated depreciation. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets which currently range from 3 to 5 years. Leasehold improvements are amortized over the shorter of their estimated useful lives or the term of the lease. Maintenance, repairs and minor replacements are charged to operations as incurred; major replacements and betterments are capitalized. The cost of any assets sold or retired and related accumulated depreciation are removed from the accounts at the time of disposition, and any resulting profit or loss is reflected in income or expense for the period.

Concentration of Credit Risk

Financial instruments that potentially expose the Company to concentrations of credit risk consist principally of cash and cash equivalents. We maintain our cash accounts at high quality financial institutions with balances, at times, in excess of federally insured limits. As of September 30, 2009, we had no deposits in excess of federally insured limits. Management believes that the financial institutions that hold our deposits are financially sound and therefore pose minimal credit risk.

Goodwill and Intangible Assets

We account for goodwill and intangible assets in accordance with ASC 350 Intangibles - Goodwill and Other. ASC 350 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.

Goodwill represents the excess of the purchase price over the fair value of net assets acquired in business combinations (Note 4). GAAP requires that goodwill be tested for impairment at the reporting unit level (operating segment or one level below an operating segment) on an annual basis and between annual tests when circumstances indicate that the recoverability of the carrying amount of goodwill may be in doubt. Application of the goodwill impairment test requires judgment, including the identification of reporting units,

BEACON ENTERPRISE SOLUTIONS GROUP, INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

assigning assets and liabilities to reporting units, assigning goodwill to reporting units, and determining the fair value. Beacon operates a single reporting unit. Significant judgments required to estimate the fair value of reporting units include estimating future cash flows, determining appropriate discount rates and other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value and/or goodwill impairment.

We reviewed our goodwill for each of our two reporting units, which are the same as our segments for possible goodwill impairment by comparing the fair value of the reporting unit to the carrying value of their respective assets. If the fair value exceeds the carrying value of the net assets, no goodwill impairment is deemed to exist. If the fair values of each of the reporting units does not exceed the carrying values of their respective assets, goodwill is tested for impairment and written down to its implied value if it is determined to be impaired. Based on a review of the fair value of our reporting units, no impairment is deemed to exist as of September 30, 2008 or 2009. Given the current economic environment and the uncertainties regarding the potential impact on the Company's business, if forecasted revenue and margin growth rates of our reporting units are not achieved, it is at least reasonably possible that triggering events could arise that would require us to evaluate the carrying amount of our goodwill for possible impairment prior to the next annual review that we would perform as of September 30, 2010. If a triggering event causes an impairment review to be required before the next annual review, it is not possible at this time to determine if an impairment charge would result or if such charge would be material.

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. We are amortizing customer relationships on a straight line basis over a 15 year estimated useful life. The covenants not to compete have been amortized on a straight line basis over a twenty four month estimated useful life. Amortization expense for the year ended September 30, 2008 and 2009 was approximately \$500,000 and \$461,000. 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. Recoverability of long-lived assets is measured by comparing the carrying amount of the asset or asset group to the undiscounted cash flows that the asset or asset group is expected to generate. If the undiscounted cash flows of such assets are less than the carrying amount, the impairment to be recognized is measured by the amount by which the carrying amount of the property, if any, exceeds its fair market value. No impairment was deemed to exist as of September 30, 2008 and 2009. We intend to re-evaluate the carrying amounts of our amortizable intangibles at least quarterly to identify any triggering events, including those that could arise from the current national and global economic downturn that would require us to conduct an impairment review. As described above, if triggering events require us to undertake an impairment review, it is not possible at this time to determine whether it would be necessary to record a charge or if such charge would be material.

Preferred Stock

We apply the guidance enumerated in ASC 480 "Distinguishing Liabilities from Equity" when determining the classification and measurement of preferred stock. Preferred shares subject to mandatory redemption (if any) are classified as liability instruments and are measured at fair value. We classify conditionally redeemable preferred shares (if any), which includes preferred shares that feature redemption rights that are either within the control of the holder or subject to redemption upon the occurrence of uncertain events not solely within our control, as temporary equity. At all other times, we classify our preferred shares in stockholders' equity. Our preferred shares do not feature any redemption rights within the holders control or conditional redemption features not within our control as of September 30, 2008 and 2009. Accordingly all issuances of preferred stock are presented as a component of consolidated stockholders' equity (deficit).

BEACON ENTERPRISE SOLUTIONS GROUP, INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)****Convertible Instruments**

We evaluate and account for conversion options embedded in convertible instruments in accordance with ASC 815 "Derivatives and Hedging Activities".

Applicable GAAP requires companies to bifurcate conversion options from their host instruments and account for them as free standing derivative financial instruments according to certain criteria. The criteria includes circumstances in which (a) the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract, (b) the hybrid instrument that embodies both the embedded derivative instrument and the host contract is not re-measured at fair value under otherwise applicable generally accepted accounting principles with changes in fair value reported in earnings as they occur and (c) a separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument. An exception to this rule when the host instrument is deemed to be conventional as that term is described under applicable GAAP.

We account for convertible instruments (when we have determined that the embedded conversion options should not be bifurcated from their host instruments) as follows. We record, when necessary, discounts to convertible notes for the intrinsic value of conversion options embedded in debt instruments based upon the differences between the fair value of the underlying common stock at the commitment date of the note transaction and the effective conversion price embedded in the note. Debt discounts under these arrangements are amortized over the term of the related debt to their stated date of redemption. We also record, when necessary, deemed dividends for the intrinsic value of conversion options embedded in preferred shares based upon the differences between the fair value of the underlying common stock at the commitment date of the transaction and the effective conversion price embedded in the preferred shares.

We evaluated the conversion option featured in the Bridge Financing Facility and Bridge Notes that are more fully described in Note 10. These conversion options provided the note-holders, of whom three are also founding stockholders and/or directors of Beacon, with the right to convert any advances outstanding under the facility, into shares of our common stock at anytime upon or after the completion of the entire Series A Private Placement described in Note 14. The conversion options embedded in these notes would not have been exercisable unless and until we raised the full \$4,000,000 of proceeds stipulated in the Series A Private Placement that was completed during the year ended September 30, 2008.

As described in Note 10, we completed our Private Placement on February 12, 2008 at which time the conversion options embedded in the Notes became exercisable at the option of the holders. Accordingly, we recorded a \$72,000 discount to the face value of the Bridge Notes based on the relative fair values of the Bridge Warrants and the Notes measured as of the commitment date on November 15, 2007 and an additional \$128,000 discount related to the beneficial conversion feature that is being accreted to interest expense over the contractual term of the Notes.

Common Stock Purchase Warrants and Other Derivative Financial Instruments

We classify as equity any contracts that (i) require physical settlement or net-share settlement or (ii) gives us a choice of net-cash settlement or settlement in our own shares (physical settlement or net-share settlement). We classify as assets or liabilities any contracts that (i) require net-cash settlement (including a requirement to net cash settle the contract if an event occurs and if that event is outside our control) or (ii) gives the counterparty a choice of net-cash settlement or settlement in shares (physical settlement or net-share settlement). We assess classification of our common stock purchase warrants and other free standing derivatives at each reporting date to determine whether a change in classification between assets and liabilities is required.

Our free standing derivatives consist of warrants to purchase common stock that we issued to three founding stockholders/directors and one independent qualified investor in connection with the Bridge

BEACON ENTERPRISE SOLUTIONS GROUP, INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Financing Facility and Bridge Notes described in Note 10, warrants issued pursuant to equity financing arrangements furnished by one of our directors as described in Note 12, warrants issued to the Series A and A-1 Preferred Stock stockholders, and warrants issued to the placement agent and its affiliates in connection with various Private Placements described in Note 14. We evaluated the common stock purchase warrants to assess their proper classification in the balance sheet as of September 30, 2008 and 2009 using the applicable classification criteria enumerated under GAAP. We determined that the common stock purchase warrants do not feature any characteristics permitting net cash settlement at the option of the holders. Accordingly, these instruments have been classified in stockholders' equity in the accompanying consolidated balance sheet as of September 30, 2008 and 2009.

Share-Based Payments

We account for share based payments in accordance with ASC 718 Compensation — Stock Payments which results in the recognition of expense under applicable GAAP and requires measurement of compensation cost for all share based payment awards at fair value on the date of grant and recognition of compensation expense over the service period for awards expected to vest. We calculate the fair value of stock options using the Black-Scholes option pricing model. The fair value of restricted stock is determined based on the number of shares granted and the fair value of our common stock on date of grant. The recognized expense is net of expected forfeitures.

Income Taxes

We account for income taxes in accordance with ASC 740 "Income Taxes". ASC 740 requires the recognition of deferred tax assets and liabilities for both the expected impact of differences between the financial statements and tax basis of assets and liabilities and for the expected future tax benefit to be derived from tax loss and tax credit carry forwards. We also record a valuation allowance when we determine that it is more likely than not that all or a portion of deferred tax assets will not be realized. Under applicable GAAP it is difficult to conclude that a valuation allowance is not needed when there is negative evidence such as cumulative losses in recent years. Therefore, cumulative losses weigh heavily in the overall assessment. Accordingly, we have recorded a full valuation allowance against our net deferred tax assets. In addition, we expect to provide a full valuation allowance on future tax benefits until we can sustain a level of profitability that demonstrates our ability to utilize the assets, or other significant positive evidence arises that suggests our ability to utilize such assets. We will continue to re-assess our reserves on deferred income tax assets in future periods on a quarterly basis.

We also periodically evaluate whether we have any uncertain tax positions requiring accounting recognition in our financial statements. Under applicable GAAP, companies may recognize a tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. Applicable GAAP also provides guidance on the de-recognition of income tax liabilities, classification of interest and penalties on income taxes, and accounting for uncertain tax positions in interim period financial statements. Our policy is to record interest and penalties on uncertain tax provisions as a component of our income tax expense.

As described in Note 15, we completed our assessment of uncertain tax positions for the years ended September 30, 2008 and 2009, including the effects of the Share Exchange Transaction described in Note 1 and business combinations completed as described in Note 4. Based on this assessment, we have determined that we have no material uncertain income tax positions requiring recognition or disclosure for the years ended September 30, 2008 and 2009.

BEACON ENTERPRISE SOLUTIONS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Net Loss Per Share

Basic net loss per share is computed by dividing net loss per share 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 reflect 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 years ended September 30, 2008 and 2009 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 September 30, 2009 are as follows:

	Stock Options and Warrants	Common Stock Equivalents	Total Common Stock Equivalents
Series A Convertible Preferred Stock	2,666,666	2,645,437	5,312,103
Series A-1 Convertible Preferred Stock	533,333	1,003,129	1,536,462
Series B Convertible Preferred Stock	350,000	875,000	1,225,000
Common Stock Offering Warrants	4,237,214		4,237,214
Placement Agent Warrants	2,519,156		2,519,156
Affiliate Warrants	55,583		55,583
Bridge Financings	1,236,000	333,333	1,569,333
Convertible Notes Payable	50,000	397,332	447,332
Compensatory Warrants	300,000		300,000
Equity Financing Arrangements	766,662		766,662
Employee Stock Options	3,200,900		3,200,900
	<u>15,915,514</u>	<u>5,254,231</u>	<u>21,169,745</u>

Subsequent to September 30, 2009, we issued shares to purchase 3,727,500 shares of common stock, warrants to purchase an aggregate of 1,863,750 shares of our common stock referred to as Common Stock Offering Warrants, warrants to purchase an aggregate of 559,125 shares of our common stock referred to as Placement Agent Warrants and granted options to purchase 100,000 shares of our common stock.

Fair Value of Financial Instruments

The carrying amounts reported in the consolidated financial statements for cash, accounts receivable, prepaid expenses and other current assets, accounts payable and accrued expenses and other current liabilities approximate fair value based on the short-term maturity of these instruments. The carrying amounts of the bridge notes, long-term debt and capital lease obligations approximate fair value because the contractual interest rates or the effective yields of such instruments, which includes the effects of contractual interest rates taken together with the concurrent issuance of common stock purchase warrants, are consistent with current market rates of interest for instruments of comparable credit risk.

Recently Adopted Accounting Pronouncements

The FASB, in June 2009, issued new accounting guidance that established the FASB Accounting Standards Codification, ("Codification" or "ASC") as the single source of authoritative GAAP to be applied by nongovernmental entities, except for the rules and interpretive releases of the SEC under authority of federal securities laws, which are sources of authoritative GAAP for SEC registrants. The FASB will no longer issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts; instead the FASB will issue Accounting Standards Updates. Accounting Standards Updates will not be

BEACON ENTERPRISE SOLUTIONS GROUP, INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

authoritative in their own right as they will only serve to update the Codification. These changes and the Codification itself do not change GAAP. This new guidance became effective for interim and annual periods ending after September 15, 2009. Other than the manner in which new accounting guidance is referenced, the adoption of these changes did not have a material effect on the Company's consolidated financial statements.

In December 2007, the FASB issued new accounting guidance, under ASC Topic 805 on business combinations, which established principles and requirements as to how acquirers recognize and measure in these financial statements the identifiable assets acquired, the liabilities assumed, noncontrolling interests and goodwill acquired in the business combination or a gain from a bargain purchase. This guidance is effective for business combinations with an acquisition date on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. This guidance will have an impact on the Company's accounting for any future business acquisitions.

In December 2007, the FASB issued new accounting guidance, under ASC Topic 810 on consolidations, which establishes the accounting for non-controlling interests in a subsidiary and the deconsolidation of a subsidiary. This guidance requires (a) the ownership interest in the subsidiary held by parties other than the parent to be clearly identified and presented in the consolidated balance sheet within equity, but separate from the parent's equity, (b) the amount of consolidated net income attributable to the parent and to the non-controlling interest to be clearly identified and presented on the face of the consolidated statement of operations and (c) changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary to be accounted for consistently. Entities must provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. This guidance is effective for financial statements issued for fiscal years beginning on or after December 15, 2008, and interim periods within those fiscal years. This guidance will have an impact on the Company's accounting for any future business acquisitions involving non-controlling interest and deconsolidation of subsidiaries.

In April 2008, the FASB issued new accounting guidance, under ASC Topic 350 on intangibles, which outlines the requirements for determining the useful life of an intangible asset. The new guidance is intended to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset when the underlying arrangement includes renewal or extension of terms that would require substantial costs or result in a material modification to the asset upon renewal or extension. Companies estimating the useful life of a recognized intangible asset must now consider their historical experience in renewing or extending similar arrangements or, in the absence of historical experience, must consider assumptions that market participants would use about renewal or extension as adjusted for entity-specific factors. This guidance is effective for financial statements issued for fiscal years beginning on or after December 15, 2008, and interim periods within those fiscal years. The Company expects the new guidance to have an impact on the accounting for any future business acquisitions and intangible assets.

In June 2008, the FASB issued new accounting guidance, under ASC Topic 260 on earnings per share, related to the determination of whether instruments granted in share-based payment transactions are participating securities. This guidance clarifies that all outstanding unvested share-based payment awards that contain rights to non-forfeitable dividends participate in undistributed earnings with common shareholders. Awards of this nature are considered participating securities and the two-class method of computing basic and diluted earnings per share must be applied. This guidance is effective for financial statements issued for fiscal years beginning on or after December 15, 2008, and interim periods within those fiscal years. The adoption of this guidance did not have a material effect on the Company's consolidated financial statements.

In June 2008, the FASB issued new accounting guidance, under ASC Topic 815 on derivatives and hedging, as to how an entity should determine whether an instrument (or an embedded feature) is indexed to an entity's own stock. This guidance provides that an entity should use a two-step approach to evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock, including evaluating the instrument's contingent exercise and settlement provisions. This guidance is effective for

BEACON ENTERPRISE SOLUTIONS GROUP, INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

financial statements issued for fiscal years beginning after December 15, 2008. Early application is not permitted. The adoption of this guidance will have an effect on the Company's consolidated financial statements. Pursuant to this pronouncement, we expect to reclassify approximately \$3.9 million from Accumulated deficit to a liability as of October 1, 2009. However, this liability will have neither an effect on cash flow nor tangible net worth of the company.

In November 2008, the FASB issued new accounting guidance, under ASC Topic 323 on investments—equity method and joint ventures, relating to the accounting for equity method investments. This guidance addresses how the initial carrying value of an equity method investment should be determined, how it should be tested for impairment, and how changes in classification from equity method to cost method should be treated. This guidance is effective on a prospective basis in fiscal years beginning on or after December 15, 2008, and interim periods within those fiscal years. The Company expects this guidance to have an impact on its accounting for any future business acquisitions.

In May 2009, the FASB issued new accounting guidance, under ASC Topic 855 on subsequent events, which sets forth: 1) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; 2) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements; and 3) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. This guidance was effective for interim and annual periods ending after June 15, 2009. The adoption of this guidance did not have a material effect on the Company's consolidated financial statements.

NOTE 4 — BUSINESS COMBINATIONS***Advance Data Systems, Inc.***

On December 20, 2007, pursuant to an Asset Purchase Agreement (the "ADSnetcurve Agreement"), our acquisition of Advance Data Systems, Inc. ("ADSnetcurve") became effective. The ADSnetcurve Agreement was entered into between us, ADSnetcurve and the shareholders of ADSnetcurve, whereby Beacon acquired substantially all of the assets and assumed certain of the liabilities of ADSnetcurve. Contemporaneously with the acquisition of ADSnetcurve, certain employees of ADSnetcurve entered into employment agreements with us, effective upon the closing of the acquisition.

ADSnetcurve is a global information technology company that provides technology solutions. Specifically, these services include web application development, IT management and hosting services (for scalable infrastructure solutions); and support services. We acquired ADSnetcurve because the business provides the software development and support infrastructure that is needed to develop custom applications for clients' information technology systems, and to provide management, hosting and technical support services with respect to those systems.

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 ADS Note (Note 10) has a term of 48 months, bearing interest at the prime rate, and is secured by the assets acquired by Beacon from ADSnetcurve. The ADS Note provides for monthly principal and interest payments of \$7,219. The ADS Note also contains a pre-payment provision such that, following our initial Private Placement, we are required to make additional principal payments equal to 3.2% of the net amount received by us from any equity capital raised, in excess of \$1,000,000, after the closing date until such time as the ADS Note has been paid in full. As of September 30, 2009 no additional payments have been made. During the years ended September 30, 2008 and 2009, we made payments of \$74,568 and \$80,302 on this

BEACON ENTERPRISE SOLUTIONS GROUP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

note representing \$63,383 and \$75,695 of principal and \$11,185 and 4,607 of interest, including principal payments made pursuant to our equity capital raises.

The ADSnetcurve agreement stipulated that if from the closing date to the first anniversary of the closing of this transaction, the annual revenue generated by ADSnetcurve amounts to less than \$1,800,000, the balance due under the ADS Note would be reduced by up to 60% of its principal amount but would not be less than \$120,000. Based on information available at the time of the acquisition, we recorded the ADS Note at its full principal amount of \$300,000 since attainment of the performance target was deemed to be probable; however, the performance target was not achieved. Accordingly, we have reduced the ADS Note balance and goodwill by \$80,000 during the year ended September 30, 2008. We are currently in negotiations to settle a portion of the remaining balance of the note for a share-based payment to be determined, however, no agreement has been reached as of September 30, 2009.

The agreement was subject to a net working capital adjustment that was initially measured and later adjusted as of December 20, 2007. Based on the initial net working capital measurement, \$116,049 of the purchase price was placed in escrow on December 20, 2007. On January 15, 2008, based on the final determination of net working capital, \$66,079 was released to the sellers (included in cash consideration above) and the remaining balance was returned to us from escrow.

Beginning December 21, 2007, the day immediately following the effective date of the transaction, the financial results of ADSnetcurve were consolidated with those of our business. The acquisition was accounted for using the purchase method of accounting. A preliminary valuation of the fair values of the acquired assets and liabilities assumed of the acquired business was performed as of December 20, 2007. As of September 30, 2008, the valuation of the purchase price allocation has been finalized. The excess of the purchase price over net assets acquired amounted to \$524,396 and was recorded as goodwill. Other separately identifiable intangibles consisting of customer relationships and non-compete agreements amounted to an aggregate of \$962,027. Based on final valuations and the resolution of the performance targets related to the ADS Note, the purchase consideration has been adjusted to \$1,647,548.

Bell-Haun Systems Inc.

On December 20, 2007, pursuant to an Agreement and Plan of Merger (the "Bell-Haun Agreement"), our acquisition of Bell-Haun Systems, Inc. ("Bell-Haun") became effective. The Bell-Haun Agreement was entered into between Beacon, BH Acquisition Sub, Inc. (the "Acquisition Sub"), Bell-Haun and Thomas Bell and Michael Haun, whereby, Bell-Haun merged with and into the Acquisition Sub, with the Acquisition Sub surviving the merger.

Bell-Haun specializes in the installation, maintenance and ongoing support of business telephone systems, wireless services, voice messaging platforms and conference calling services to businesses throughout its region. The Company acquired Bell-Haun because it believes the business provides it with (i) a customer base and presence in the greater Columbus, Ohio region and (ii) an established presence in the market for products and services needed to design telecommunications infrastructures and implement such design plans and systems.

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 Bell-Haun Notes are payable over 60 months in installments of \$2,413 including interest at 8% per annum with the first payment due and payable on January 19, 2009 (Note 10). During the year ended

BEACON ENTERPRISE SOLUTIONS GROUP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

September 30, 2009, we made payments \$81,554 on this note representing \$75,015 of principal and \$6,539 of interest, including principal payments made pursuant to our equity capital raises.

The Bell-Haun Agreement also provides for the payment of up to \$480,374 of additional purchase consideration upon the attainment of certain earnings milestones based on gross profit earned over the twelve months following the anniversary of the closing. These payments are being accounted for as contingent consideration that would be recorded as an increase to goodwill at December 20, 2008, the measurement date of the milestone if such milestones are attained. We currently do not expect to pay any additional purchase consideration to the sellers of Bell-Haun since it is not probable that the performance targets stipulated under the acquisition agreement will be met.

Beginning December 21, 2007, the day immediately following the effective date of the transaction, the financial results of Bell-Haun Systems Inc. were consolidated with those of our business. The acquisition was accounted for under the purchase method of accounting, whereby a preliminary valuation of the fair values of the assets acquired and liabilities assumed was performed as of December 20, 2007. The aggregate amount of the purchase price which amounted to \$794,100 plus the amount of the net liabilities assumed which amounted to \$599,520 (grand total of \$1,393,620), was allocated to goodwill and other intangible assets. Goodwill initially amounted to approximately \$520,000, but was subsequently adjusted to approximately \$451,000 as of September 30, 2008, upon the completion of our valuation. Separately identifiable intangibles consisting of customer relationships and non-compete agreements amounted to an aggregate of \$873,760.

As described in Notes 2 and 10, we assumed approximately \$405,000 of debt obligations in this transaction that were in default as of the closing due to certain change of control restrictions that the sellers breached upon the transfer of their shares to us. These debt obligations were refinanced on March 14, 2008.

CETCON, Inc.

On December 20, 2007, pursuant to an Asset Purchase Agreement (the “CETCON Agreement”), our acquisition of CETCON, Inc. (“CETCON”) became effective. The CETCON Agreement was entered into between Beacon, CETCON and the shareholders of CETCON, whereby we acquired substantially all of the assets and assumed certain of the liabilities of CETCON. Contemporaneously with the acquisition of CETCON, certain employees of CETCON entered into employment agreements with us, effective upon the closing of the acquisition.

CETCON provides engineering consulting services to commercial and government entities with respect to the design and implementation of their voice, data, video, and security infrastructures and systems. Beacon acquired CETCON because the business provides systems design and engineering services that include evaluating information technology needs (including voice, data, video, and security needs) and also designs and engineers systems (i.e., hardware) and infrastructure (i.e., cabling and connectivity) to meet those needs at the enterprise level.

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 CETCON Note (Note 10) has a term of 60 months, bearing interest at 8% per annum. The CETCON Note provides for monthly principal and interest payments in the amount of \$12,166 and is secured by the assets acquired by us in this transaction (subordinate only to existing senior debt of \$194,947 assumed in the acquisition which was repaid from proceeds of a new credit facility entered into on March 14, 2008 (Note 10)). If, from the closing date to October 31, 2008, the revenue generated from CETCON is less than \$2,000,000, the principal amount of the CETCON Note will be reduced by the percentage of the actual revenue divided by \$2,000,000. The minimum revenue of \$2,000,000 provided for in the CETCON Note for which there would be

BEACON ENTERPRISE SOLUTIONS GROUP, INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

consideration payable was achieved. Accordingly, the full principal amount of the CETCON Note was included in the purchase consideration paid to the seller as of the closing date of the acquisition. During the years ended September 30, 2008 and 2009, we made payments of \$118,493 and \$133,823 on this note representing \$84,373 and \$99,222 of principal and \$34,120 and \$34,601 of interest.

We may prepay all or a portion of the outstanding principal amount and accrued interest under the CETCON Note. The CETCON Note contains a pre-payment provision such that, following the initial Private Placement, we are required to make additional principal payments equal to 3% of the net amount received by us from any equity capital raised, in excess of \$1,000,000, after the closing date until such time as the CETCON Note is paid in full. Such amounts are included in the principal payments referred to in the previous paragraph.

Beginning December 21, 2007, the financial results of CETCON, Inc. were consolidated with those of our business. The acquisition was accounted for under the purchase method of accounting in accordance with SFAS 141, whereby a preliminary valuation of the fair values of the assets acquired and liabilities assumed of the acquired business was performed as of December 20, 2007. Pursuant to our final valuation, the excess of the purchase price over net tangible and separately identifiable intangible assets acquired amounted to \$994,007 and was recorded as goodwill. Other separately identifiable intangibles consisting of customer relationships and non-compete agreements amounted to an estimated aggregate fair value of \$1,127,887.

Strategic Communications, LLC

On December 20, 2007, pursuant to an Asset Purchase Agreement (the “Strategic Agreement”), our acquisition of selected assets of Strategic Communications, LLC (“Strategic”) became effective. The Strategic Agreement was entered into between Beacon, Strategic and the members of Strategic, whereby we acquired substantially all of the assets and assumed certain of the liabilities of Strategic. Contemporaneously with the Strategic Agreement, Beacon, RFK Communications, LLC (“RFK”) (co- owner of Strategic Communications, Inc.) and the members of RFK entered into an Asset Purchase Agreement, whereby we acquired substantially all of the assets and assumed certain of the liabilities of RFK.

Strategic was a voice, video and data communication systems solutions provider. Strategic specifically provided procurement for carrier services (including voice, video, data, Internet, local and long distance telephone applications), infrastructure services (including cabling and equipment); routers, servers and hubs; telephone systems, voicemail, general technology products and maintenance support. The Company acquired certain Strategic assets because it believes the business provides it with a customer base and presence in the greater Louisville, Kentucky region and an established presence in the market for products and services needed to design and implement these types of systems.

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.

We delivered the \$342,000 Strategic Escrow Note (Note 10) and a stock certificate for 200,000 shares of the common stock conveyed to the members of Strategic as purchase consideration to be held in escrow (the “Strategic Escrow Shares”) for the purpose of securing the indemnification obligations of members of Strategic. The specific indemnity secured a commitment on the part of the sellers in this transaction to hold Beacon harmless from its previously existing liabilities, including a \$313,000 tax delinquency, since Beacon agreed to assume only \$500,000 of liabilities in the transaction. The escrow agreement was to terminate and the Strategic Escrow Note and Strategic Escrow Shares were to be released to the sellers upon confirmation and to the extent that Strategic has settled the liabilities specified under such indemnification. If necessary, the amounts escrowed can be used to settle such liabilities. As discussed below, since we entered into an

BEACON ENTERPRISE SOLUTIONS GROUP, INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

arrangement with the Internal Revenue Service to pay the tax obligations of Strategic, the obligations under the Strategic Escrow Note shall be deemed discharged by such payments.

The Strategic Secured Note (Note 10) has a term of 60 months, bearing interest at 8% per annum. The Strategic Secured Note provides for monthly principal and interest payments of \$11,405. We may prepay all or a portion of the outstanding principal amount and accrued interest under the Strategic Secured Note. During the years ended September 30, 2008 and 2009, we made payments of \$102,649 and \$131,404 on this note representing \$73,883 and \$102,611 of principal and \$28,766 and \$28,793 of interest.

The Strategic Escrow Note bears interest at the Federal short term rate (5% as of September 30, 2008) and matures on the earlier of the final round of equity financing (as that term is defined in the Strategic Escrow Note) or December 31, 2008 (the "Maturity Date"), at which time the entire principal and accrued interest will be due and payable. We may prepay all or a portion of the outstanding principal amount and accrued interest under the Strategic Escrow Note. In addition, we have agreed to pay interest and penalties that Strategic incurs related to a tax liability it incurred prior to the acquisition. At the time the acquisition was executed, the acquired assets were believed to be encumbered by an aggregate of \$313,000 of tax liens as of the time of the closing of this transaction; however Strategic, as the seller in this transaction, is still the primary obligor of this liability and is still therefore primarily liable for payment of the entire balance, including penalties and interest. As described in Note 17, the remaining amount of the liens of approximately \$281,000 was settled on July 1, 2008 pursuant to an agreement by and among Strategic Communications LLC, Beacon, and the Internal Revenue Service.

On July 1, 2008, we entered into an installment payment plan ("Installment Agreement") by and among the former owners of Strategic and the Internal Revenue Service to settle the Strategic tax liens. The agreement requires us to pay \$50,000 upon signing and \$50,000 the 15th of each month beginning in July until the approximate \$281,000 balance is paid in full along with any further interest and penalties that accrue during the term of the agreement. Based on estimates provided by the Internal Revenue Service, the remaining interest and penalties that have not been accrued to date will amount to approximately \$12,000. The Company does not deem this amount to be significant to the original acquisition transaction and is therefore expensing such penalties and interest over the remaining term of the agreement as incurred. During the year ended September 30, 2008, we paid and settled \$412,449 of obligations to taxing authorities on behalf of Strategic Communications, its former owners and principals to settle state and local tax liens, as well as payments to settle portions of the outstanding federal tax obligations payable at the time of the acquisition. Amounts paid in settlement include \$54,119 paid directly from closing proceeds and \$358,330 as a reduction of Notes. The remaining balance due under the Installment Agreement, including interest and penalties accrued to date, was \$85,960 and \$0 as of September 30, 2008 and 2009. Since the aggregate tax liens were in excess of the \$313,000 originally estimated, concurrently with the execution of the Installment Agreement, pursuant to our right of offset between the Strategic Escrow Note and Strategic Secured Note, we entered into an amendment to the Strategic Secured Note reducing the balance by \$89,000 and increasing the balance of the Strategic Escrow Note to compensate for the difference between the remaining balance of tax liens due the Internal Revenue Service. The Company will continue to pay the Strategic Secured Note payments of \$11,405 per month, the effect of which will result in the note being repaid ahead of its scheduled maturity.

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 in accordance with SFAS 141, whereby a preliminary valuation of the fair values of the assets acquired and liabilities assumed was performed as of December 20, 2007. Based on the final valuation, the excess of the purchase price over the net tangible and separately identifiable intangible assets acquired amounted to \$723,509 and was recorded as goodwill, subsequently adjusted to \$821,994 as of September 30, 2008, upon final review of the estimated fair values of the assets purchased and

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

liabilities assumed in the transaction. Other separately identifiable intangibles consisting of customer relationships and non-compete agreements amounted to an estimated aggregate fair value of \$1,340,400.

Business Combination Accounting — Phase 1 Acquisitions

Beacon accounted for the acquisitions of ADSnetcurve, Bell-Haun, CETCON and Strategic using the purchase method of accounting prescribed under SFAS 141, which was then the effective standard of accounting for business combinations completed prior to January 1, 2009. Under the purchase method, the acquiring enterprise records any purchase consideration issued to the sellers of the acquired business at their fair values. The aggregate of the fair value of the purchase consideration plus any direct transaction expenses incurred by the acquiring enterprise is allocated to the assets acquired (including any separately identifiable intangibles) and liabilities assumed based on their fair values at the date of acquisition. The excess of cost of the acquired entities over the fair values of assets acquired and liabilities assumed was recorded as goodwill. The results of operations for each of the acquired companies following the dates of each of the business combination (which was December 20, 2007) are included in our consolidated results of operations for the years ended September 30, 2008 and 2009. We evaluated each of the aforementioned transactions to identify the acquiring entity as required under SFAS 141 for business combinations effected through an exchange of equity interests. Based on such evaluation we determined that we were the acquiring entity in each transaction (and cumulatively for all transactions) as (1) the larger portion of the relative voting rights in each of the acquired business and in the combined business as a whole was retained by the existing Beacon stockholders, (2) there are no significant minority interests or organized groups of interests carried over from the acquired entities that could exercise significant influence over the operating policies or management decisions of the combined entity, (3) the sellers in each of these transactions have no participation on the board of directors nor are they involved in any corporate governance functions of the combined entity and (4) a majority of the Senior Management positions in the combined entity, including those of the Chairman and Chief Executive Officer and the Chief Accounting Officer, were retained by officers of Beacon both prior and subsequent to the business combination. 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 us 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
	<u>\$ 1,647,548</u>	<u>\$ 794,100</u>	<u>\$ 2,158,111</u>	<u>\$ 2,208,526</u>	<u>\$ 6,808,285</u>

The fair value of common stock issued to the sellers as purchase consideration was determined to be \$.85 per share based on the selling prices of equity securities issued by Beacon in the Private Placement Transaction described in Note 14. The fair value of note obligations issued to the sellers as purchase consideration is considered to be equal to their principal amounts because such notes feature interest rates that are deemed to be comparable for instruments of similar credit risk. Transaction expenses, which include legal fees and transaction advisory services directly related to the acquisitions, amounted to approximately \$630,000. Such fees included legal, accounting and business broker fees paid in cash.

Beacon also evaluated all post combination payments payable or potentially payable to the sellers of the acquired business as either contingent consideration or compensation under applicable employment agreements

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

to determine their proper characterization. We determined that potential contingent consideration payable to certain sellers of the acquired businesses upon the attainment of certain pre-defined financial milestones should be accounted for as additional purchase consideration because there are no future services required on the part of such sellers in order for them to be entitled to those payments. In addition, we deem these payments to be a component of the implied value of the acquired businesses for which payment would be made based on financial performance. Conversely, any payments to be made to certain sellers of the acquired businesses under their respective employment agreements are deemed to be compensation for post combination services because such payments, which management believes are comparable to amounts for similar employment services, require the continuation of post-combination employment services.

Purchase Price Allocation — Phase 1 Acquisitions

Under the purchase method of accounting, the total preliminary 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 final allocation of the purchase price for these four acquisitions is set forth below. 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>

We considered our intention for future use of the acquired assets, analyses of the historical financial performance of each of the acquired businesses and estimates of future performance of each acquired businesses' products and services in deriving the fair values of the assets acquired and liabilities assumed. Our final determination of the purchase price allocation resulted in changes to the amounts reflected in our preliminary estimate and estimated useful lives of acquired assets. However, none of the adjustments were significant.

BEACON ENTERPRISE SOLUTIONS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Symbiotec Solutions AG

On July 29, 2009, BESS Ireland Ltd., a wholly owned subsidiary of Beacon, acquired 100% of the outstanding shares of Symbiotec Solution AG (Symbiotec) in exchange for 400,000 shares of Beacon common stock issued as of the date of the acquisition, plus contingent consideration consisting of an additional 400,000 shares of Beacon common stock and up to \$145,189 of cash subject to the attainment of certain contractually defined earnings targets. We recorded the contingent consideration as part of the purchase price on the date of the acquisition since it is probable that the acquired business will meet its earnings targets over the one year measurement period. Beacon acquired Symbiotec as an integral part of our plan to establish a presence in Europe where we are currently serving a significant customer. For the period July 29, 2009 to September 30, 2009, we recognized revenue of approximately \$1.0 million and net income of approximately \$0.4 million, which is included in our consolidated statement of operations for the year ended September 30, 2009.

The following presents a summary of the purchase price consideration for the purchase of Symbiotec:

	Amount
Shares issued at acquisition	\$ 436,855
Contingent shares pursuant to earnout	476,000
Profit sharing earnout	145,189
	<u>\$ 1,058,044</u>
Less cash acquired	(46,202)
Total purchase price consideration, net of cash received	<u>\$ 1,011,842</u>

The purchase price has been allocated as follows:

	Amount
Accounts receivable	\$ 133,516
Prepaid expenses and other current assets	26,567
Property and equipment	15,000
Goodwill	360,300
Customer relationships	349,100
Covenants not to compete	212,300
Accounts payable and accrued liabilities	(84,941)
	<u>\$ 1,011,842</u>
Net tangible asset acquired	<u>\$ 136,344</u>

Beacon also evaluated all post combination payments payable or potentially payable to the sellers of the acquired business as either contingent consideration or compensation under applicable employment agreements to determine their proper characterization. We determined that potential contingent consideration payable to sellers of the acquired businesses upon the attainment of certain contractually defined earnings targets should be accounted for as additional purchase consideration because there are no future services required on the part of the sellers in order for them to be entitled to those payments. In addition, we deem these payments to be a component of the implied value of the acquired businesses for which payment would be made based on financial performance. Conversely, any payments to be made to the sellers of the acquired businesses under their respective employment agreements which are at will with no fixed term, are deemed to be compensation for post combination services because such payments, which management believes are comparable to amounts for similar employment services, require the continuation of post-combination employment services.

BEACON ENTERPRISE SOLUTIONS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
Pro-Forma Financial Information

The unaudited financial information in the table below summarizes our combined results of operations on a pro-forma basis, as if the companies we acquired during the year ended September 30, 2008 and 2009 had been combined as of the beginning of each of the periods presented.

The acquisitions of ADSnetcurve, Bell-Haun, CETCON and Strategic were completed on December 20, 2007. Our acquisition of Symbiotec was completed on July 29, 2009. The unaudited pro-forma financial results for the year ended September 30, 2008 combines the historical results of ADSnetcurve, Bell-Haun, CETCON, Strategic and Symbiotec with those of the Company as if these acquisitions had been completed as of October 1, 2007. The pro-forma weighted average number of shares outstanding also assumes that the Share Exchange Transaction and Series A Private Placement described in Note 1 was completed as of October 1, 2008.

The unaudited pro-forma financial information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisitions of these businesses had taken place at the beginning of each of the periods presented

	For the Year Ended September 30, 2008	For the Year Ended September 30, 2009
	(Unaudited)	(Unaudited)
Net sales	\$ 8,390,073	\$11,231,496
Loss from operations	(4,713,761)	(5,154,657)
Net loss available to common stockholders — (including the effects of contractual and deemed dividends)	(10,673,847)	(7,045,261)
Net loss per share — basic and diluted	\$ (0.98)	\$ (0.42)
Pro-forma weighted average shares outstanding	10,865,250	16,882,449

The unaudited proforma financial results for the year ended September 30, 2009 combine the historical results of Symbiotec with those of the company as if that acquisition was completed on October 1, 2002.

NOTE 5 — ACCOUNTS RECEIVABLE

Accounts receivable consists of the following:

	September 30, 2008	September 30, 2009
Accounts receivable	\$ 1,555,162	\$ 4,138,486
Less: Allowance for doubtful accounts	(50,000)	(157,771)
Accounts receivable, net	\$ 1,505,162	\$ 3,980,715

Additions and charges to the allowance for doubtful accounts consists of the following:

	September 30, 2008	September 30, 2009
Opening balance	\$ —	\$ (50,000)
Add: Additions to reserve	\$ (50,000)	\$ (151,888)
Less: charges		44,117
Ending balance	\$ (50,000)	\$ (157,771)

BEACON ENTERPRISE SOLUTIONS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

NOTE 6 — INVENTORY, NET

Inventory consists of the following as of September 30, 2008 and 2009:

	September 30, 2008	September 30, 2009
Inventory	\$ 632,852	\$ 765,121
Less: reserve for obsolete inventory	(35,058)	(160,499)
Inventory	<u>\$ 597,794</u>	<u>\$ 604,622</u>

Additions and charges to the reserve for obsolete inventory:

	As of September 30, 2008	As of September 30, 2009
Opening balance	\$ —	\$ (35,058)
Add: additions to reserve	(35,058)	(144,659)
Less: charges		19,218
Ending balance	<u>\$ (35,058)</u>	<u>\$ (160,499)</u>

Inventory includes parts and system components that we utilize in time and materials contracts and to fulfill repair and maintenance services and/or upgrade requirements. These items are stated at their net realizable value. We have established a \$35,058 and \$160,499 reserve for obsolete inventory, principally relating to spare parts that we may use to service phone systems that are discontinued.

NOTE 7 — PROPERTY AND EQUIPMENT, NET

Property and equipment consist of the following as of September 30, 2008 and 2009:

	September 30, 2008	September 30, 2009
Equipment	\$ 213,315	\$ 290,386
Vehicles	80,934	80,934
Furniture and Fixtures	45,000	118,358
Software	27,225	110,992
Leasehold Improvements	14,339	16,852
	<u>\$ 380,813</u>	<u>\$ 617,522</u>
Less: Accumulated Depreciation	(70,110)	(222,951)
Net Book Value Fixed Assets	<u>\$ 310,703</u>	<u>\$ 394,571</u>

Depreciation amounted to approximately \$70,000 and \$153,000 for the years ended September 30, 2008 and 2009.

BEACON ENTERPRISE SOLUTIONS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

NOTE 8 — INTANGIBLE ASSETS, NET

The following table is a summary of the intangible assets acquired in business combinations as described in Note 4:

	ADSnecurve	Bell-Haun Systems	CETCON	Strategic Communications	Symbio Tec	Total Consideration
Goodwill	\$ 524,396	\$ 451,252	\$ 994,007	\$ 821,993	\$ 360,300	\$ 3,151,948
Customer relationships	862,027	843,760	927,887	1,240,400	349,100	4,223,174
Contracts not to compete	100,000	30,000	200,000	100,000	212,300	642,300
	962,027	873,760	1,127,887	1,340,400	561,400	4,865,474
Less: Accumulated amortization	(213,584)	(193,308)	(271,727)	(283,731)	—	(962,350)
Intangibles, net	748,443	680,452	856,160	1,056,669	561,400	3,903,124

The above noted intangible assets are being amortized on a straight-line basis. Customer relationships are being amortized over a 15 year useful life, contracts not to compete had been amortized over a 2 year useful life based on the estimated economic benefit. Amortization expense for the years ended September 30, 2008 and 2009 was \$501,357 and \$460,993.

Given the current economic environment and uncertainties regarding the potential impact of these conditions on our business, if forecasted revenue and margin growth rates of the reporting unit are not achieved, it is reasonably possible that an impairment review may be triggered for goodwill and amortizable intangible assets prior to the next annual review.

The following is a summary of amortization expense for the next five fiscal years and thereafter:

	Fiscal Year Ended September 30,
2010	\$ 462,246
2011	462,246
2012	462,246
2013	462,246
2014	462,246
Thereafter	1,591,894
	<u>\$ 3,903,124</u>

NOTE 9 — ACCRUED EXPENSES

Accrued expenses consist of the following at September 30, 2007 and 2008:

	September 30, 2008	September 30, 2009
Goods received not invoiced	\$ 121,517	\$ 1,092,042
Compensation related	371,511	559,782
Severance and related	133,161	156,248
Interest	76,852	122,660
Sales taxes payable	80,147	66,798
Warranty reserve	58,178	65,072
Preferred stock dividends	220,354	37,962
Other	275,640	543,716
	<u>\$ 1,337,360</u>	<u>\$ 2,644,280</u>

BEACON ENTERPRISE SOLUTIONS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

NOTE 10 — NOTES PAYABLE AND LONG TERM DEBT

The following is a summary of our notes payable and long term debt:

	September 30, 2008	September 30, 2009
Lines of Credit and Short-Term Notes	\$ 200,000	\$ 550,000
Convertible Notes Payable	\$ —	\$ 297,999
Bridge Note	\$ 571,160	166,879
Integra Bank	548,541	439,367
Acquisition notes (payable to the sellers of the acquired businesses)		
ADSnetcurve	156,617	80,922
Bell-Haun	119,000	43,985
CETCON	515,627	416,404
Strategic Secured Note	472,287	297,005
	1,812,072	1,277,683
Less: current portion	(495,595)	(475,348)
Non-current portion	\$ 1,316,477	\$ 802,335

Lines of Credit

On June 11, 2008, Beacon and Integra Bank entered into a credit facility, under which we borrowed \$200,000 at a 6.00% annual interest rate with principal due on August 11, 2008. The proceeds of the note were used as short term working capital collateralized by certain customer accounts receivables balances. The credit facility plus interest of \$2,033 was paid in full on August 11, 2008.

On August 20, 2008, Beacon and one of our directors, entered into a credit facility under which we borrowed \$100,000 at a 12.00% annual interest rate the principal of which is not due on any specific date. We also paid a 1.00% origination fee upon initiation of the credit facility. The proceeds of the credit facility were used as short term working capital collateralized by our accounts receivable. We have accrued \$2,400 of interest expense related to this credit facility during the year ended September 30, 2008 which is included in accrued expenses and other current liabilities in the consolidated financial statements. The principal balance due under this note amounted to \$100,000 at September 30, 2008. This credit facility was fully repaid during the year ended September 30, 2009.

On September 4, 2008, Beacon and First Savings Bank entered into a credit facility, under which we borrowed \$100,000 at a 5.00% annual interest rate the principal of which was payable on September 29, 2008. The term of the credit facility was extended to December 29, 2008. On December 29, 2008 the note was converted into an installment obligation due in two payments of \$50,000 each on January 15, 2009 and February 15, 2009 with interest at a rate of 5.00% per annum. On March 31, 2009, we executed a further extension of this note due in two payments of \$50,000 each on May 15, 2009 and June 15, 2009. We repaid \$50,000 of the note on May 15, 2009. On July 24, 2009 the maturity date of the remaining \$50,000 balance of this note was extended through August 31, 2009. On October 29, 2009 the maturity date of the remaining \$50,000 balance was further extended through December 30, 2009. We recorded \$891 and \$2,337 of interest expense related to this credit facility during the years ended September 30, 2008 and 2009, 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.

BEACON ENTERPRISE SOLUTIONS GROUP, INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

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.

On August 7, 2009, we entered into a non-interest bearing note with one of our directors in the amount of \$500,000 in exchange for a commitment fee of \$25,000, recognized as interest expense in the accompanying Statement of Operations for the year ended September 30, 2009, paid on August 10, 2009. Subsequent to September 30, 2009, we exercised a contractual right to convert the note into a demand obligation that would become payable within a 5 day period following written notice of such demand. We paid a fee equal to \$87,500 in cash and issued an additional 112,500 common stock purchase warrants exercisable for \$1.00 per share to the lender upon the occurrence of this event.

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 have been extended to January 21, 2010 and as such 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 holders may convert these 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. Each of the note holders also received a five-year warrant to purchase one share of Beacon Common Stock (the "Note Warrants") at a purchase price of \$1.00 per share per \$10 of note principal (50,000 shares in the aggregate). 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 these note in the event of default would also result in the interest rate increasing by 0.4166% per event. We repaid \$202,001 in principal and recognized \$42,958 of interest expense and \$75,000 of non-cash interest expense for accretion of the discount related to the broker fee and non-accountable expense reimbursement during the year ended September 30, 2009.

The fair value of the Note Warrants which amounted to approximately \$20,500, 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 based upon the relative fair values of the notes and the warrants and the effects of a beneficial conversion feature. The effective conversion price is \$.72 per share calculated in accordance with the guidelines of ASC 470. The discount is being accreted over the life of the Notes of 6 months from the date of issuance on January 22, 2009. Accretion amounted to \$74,334 through September 30, 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 whether they should be bifurcated from their host instruments and accounted for as separate derivative financial instruments. We determined that the debt is conventional debt. Accordingly the conversion feature is being accounted for as an embedded conversion option.

BEACON ENTERPRISE SOLUTIONS GROUP, INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)****Bridge Financing Transactions**

On July 16, 2007, Beacon entered into a \$500,000 Bridge Financing Facility provided by two of our founding stockholders who are also directors of our Company. The terms of the facility provided for the founding stockholders/directors to make up to \$500,000 of advances to us on a discretionary basis at any time prior to the closing of an equity offering in which gross proceeds are at least \$4,000,000 (the "Qualified Offering"). As of September 30, 2008, the entire facility had been drawn down of which \$278,000 of the proceeds were received prior to September 30, 2007 and the remaining \$222,000 of proceeds were received during the three months ended December 31, 2007.

Advances under this facility bear interest at the Prime Rate (5.00% as of September 30, 2008) per annum and were to originally mature (i) in the event a Qualified Offering did not occur on or prior to December 31, 2007, on December 31, 2007; or (ii) in the event a Qualified Offering occurred prior to December 31, 2007, on demand at any time following the completion of the offering but not more than twenty-four (24) months after the date of the closing of the Qualified Offering. Certain warrants described below that we issued to the note holders would vest for each month repayment was deferred. In December 2007, we were informed that only a portion of the Private Placement described in Note 14 (which would have satisfied the requirement to complete a Qualified Offering) would be completed by December 31, 2007. Based on this development, the note holders agreed, on December 28, 2007, not to demand repayment of the notes before the completion of the Private Placement or December 31, 2008, whichever came first. On May 15, 2008, the noteholders agreed not to demand repayment of the notes before the completion of an offering in which we raise at least \$3 million of additional equity financing or April 1, 2009, whichever comes first. On November 20, 2008, the noteholders agreed unconditionally not to demand repayment of the notes before June 30, 2010. Accordingly, the notes are included in non-current liabilities at September 30, 2008.

The effectiveness of the conversion option in the notes was contingent on the completion of the qualified offering, which occurred February 12, 2008. The notes immediately became convertible into shares of our common stock at a conversion price equal to \$.60 per share, or into the number and type of such equity securities into which the shares otherwise issuable upon such conversion are converted or exchanged under the terms of a merger, exchange or reorganization consummated by us prior to or at the time of a Qualified Offering.

We evaluated the conversion option stipulated in the Bridge Financing Facility to determine whether it should be bifurcated from its host instrument and accounted for as a free standing derivative. In performing this analysis, we determined that the conversion option, which is fixed and therefore conventional, provides the founding stockholders/directors with the right to convert any advances outstanding under the Bridge Financing Facility into shares of our common stock at anytime upon or after the completion of a Qualified Offering. The Qualified offering was completed on February 12, 2008. The conversion option was out-of-the-money, having a fair value of common stock \$0.002 per share (as compared to an exercise price of \$0.60 per share) as of the commitment date of July 16, 2007 which is not beneficial.

In connection with the issuance of the Bridge Financing Facility, we issued warrants to purchase shares of our common stock (the "Warrants"). The Warrants allow the holders to purchase up to 865,000 shares of our common stock at an exercise price of \$1.00 per share, of which 625,000 are immediately exercisable. The remaining 240,000 Warrants (the "Contingent Bridge Facility Warrants") vest and become exercisable at a rate of 10,000 shares on the 15th of each month from the date of a Qualified Offering until the maturity date of the Bridge Financing Facility for each month that the demand for payment is deferred. Upon full conversion of the advances into shares of Beacon common stock or upon the final maturity date, all remaining unvested Contingent Bridge Facility Warrants will automatically vest and become exercisable. If the founding stockholders/directors require prepayment of the advances after the completion of a Qualified Offering but prior to the final maturity date, all remaining unvested Warrants will be forfeited and canceled. The Warrants

BEACON ENTERPRISE SOLUTIONS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

expire on June 30, 2012. As of September 30, 2008, 80,000 Warrants had vested under the terms of the Bridge Financing Facility.

The fair value of the Warrants, exercisable into 625,000 share of common stock, which amounted to \$0, was calculated using the Black-Scholes option pricing model. Assumptions relating to the estimated fair value of the Warrants are as follows: fair value of common stock of \$.002 on the commitment date of July 16, 2007; risk-free interest rate of 4.95%; expected dividend yield of zero percent; life of five years; and current volatility of 66.34%.

The final closing of the Private Placement was completed on February 12, 2008. Accordingly, the founding stockholders/directors have the right to demand repayment of these notes in cash at any time after February 12, 2008. From the date of the final closing of the Private Placement on February 12, 2008, the founding stockholders/directors may also (at their option) convert the outstanding principal into 833,333 shares of our common stock at an exercise price of \$0.60 per share and receive cash payment of accrued and unpaid interest. In addition to the above, vesting commenced on the Contingent Bridge Facility Warrants on February 12, 2008. We recorded \$55,700 of non-cash interest expense related to the remaining 80,000 Contingent Bridge Facility Warrants that vested and became exercisable during the year ended September 30, 2008. All Contingent Bridge Facility Warrants became fully vested on November 20, 2008, the date in which the holders agreed to not demand repayment prior to June 30, 2010. The aggregate charge for Contingent Bridge Facility warrants vested during the year ended September 30, 2009 amounted to \$40,600. The fair value of the vested Contingent Bridge Facility Warrants was calculated using the Black-Scholes valuation model as detailed in the following table:

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
2/15/2008	10,000	1,825	\$ 1.00	\$ 1.35	66.34%	0%	2.76%	\$ 0.86	\$ 8,600.00
3/15/2008	10,000	1,796	\$ 1.00	\$ 1.04	66.34%	0%	2.37%	\$ 0.60	\$ 6,000.00
4/15/2008	10,000	1,765	\$ 1.00	\$ 1.15	66.34%	0%	2.68%	\$ 0.69	\$ 6,900.00
5/15/2008	10,000	1,735	\$ 1.00	\$ 0.95	66.34%	0%	3.10%	\$ 0.53	\$ 5,300.00
6/15/2008	10,000	1,704	\$ 1.00	\$ 1.01	66.34%	0%	3.73%	\$ 0.58	\$ 5,800.00
7/15/2008	10,000	1,674	\$ 1.00	\$ 1.25	66.34%	0%	3.12%	\$ 0.76	\$ 7,600.00
8/15/2008	10,000	1,643	\$ 1.00	\$ 1.50	66.34%	0%	3.11%	\$ 0.97	\$ 9,700.00
9/15/2008	10,000	1,612	\$ 1.00	\$ 1.05	66.34%	0%	2.59%	\$ 0.58	\$ 5,800.00
For the year ended September 30, 2008									\$ 55,700.00
10/15/2008	10,000	1,582	\$ 1.00	\$ 1.20	66.34%	0%	2.90%	\$ 0.70	\$ 7,000.00
11/15/2008	10,000	1,551	\$ 1.00	\$ 0.85	66.34%	0%	2.33%	\$ 0.42	\$ 4,200.00
11/20/2008	140,000	1,546	\$ 1.00	\$ 0.55	66.34%	0%	1.94%	\$ 0.21	\$ 29,400.00
For the year ended September 30, 2009									\$ 40,600.00

We recorded \$27,757 and \$18,763 of contractual interest expense under this arrangement for the years ended September 30, 2008 and 2009.

On September 9, 2009, the holders of the Bridge Financing Facility exercised their right to convert the entire amount of the principal due under these notes into 833,334 shares of common stock.

On November 15, 2007, we issued \$200,000 of convertible notes payable (the "Bridge Notes") in a separate debt financing. Of this amount, \$100,000 of the Bridge Notes was issued to one of the directors of Beacon. These Bridge Notes were issued under terms substantially identical to the terms stipulated under the Bridge Financing Facility described above. The holders of the Bridge Notes also agreed, on December 28, 2007, not to demand repayment of these notes before the completion of the Private Placement described in

BEACON ENTERPRISE SOLUTIONS GROUP, INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Note 14 or December 31, 2008, whichever came first. On March 15, 2008, the noteholders agreed not to demand repayment of the notes before the completion of an offering in which the Company raises at least \$3 million of additional equity financing or April 1, 2009, whichever comes first. On November 20, 2008, the noteholders agreed unconditionally not to demand repayment of the notes before June 30, 2010. Accordingly, the notes are included in non-current liabilities at September 30, 2008. The effect of the change in the maturity dates of these notes was insignificant to our financial results.

We evaluated the conversion option stipulated in the Bridge Notes (which has terms identical to the conversion option featured in the Bridge Financing Facility described above) to determine whether it should be bifurcated from its host instrument and accounted for as a free standing derivative. In performing this analysis, we determined that the conversion option, which is fixed and therefore conventional, provided the founding stockholders/directors with the right to convert any advances outstanding under the Bridge Notes into shares of our common stock at anytime upon or after the completion of the Qualified Offering on February 12, 2008.

In connection with the issuance of the Bridge Notes, we also issued warrants to purchase shares of our common stock (the "Bridge Note Warrants"). The Note Warrants allow the holders to purchase up to 346,000 shares of our common stock at an exercise price of \$1.00 per share, of which 250,000 are immediately exercisable. The remaining 96,000 Note Warrants (the "Contingent Bridge Note Warrants") vest and become exercisable at a rate of 4,000 shares per month from the date of a Qualified Offering (if completed) until the maturity date of the Bridge Notes for each month that the demand for repayment of the principal balance is deferred. Upon full conversion of the principal into shares of our common stock or upon the final maturity date, all remaining unvested Note Warrants will automatically vest and become exercisable. If the note holders require prepayment of the principal after the completion of a Qualified Offering but prior to the final maturity date, all remaining unvested Note Warrants will be forfeited and canceled. The Warrants expire on June 30, 2012.

The fair value of the Bridge Note Warrants, exercisable into 250,000 shares of common stock, which amounted to \$112,500, was calculated using the Black-Scholes option pricing model. Assumptions relating to the estimated fair value of the Warrants are as follows: fair value of common stock of \$.85 on the commitment date of November 15, 2007; risk-free interest rate of 3.71%; expected dividend yield of zero percent; expected life of 1,689 days through June 30, 2012; and current volatility of 66.34%. Accordingly, we recorded a \$72,000 discount to the face value of the Bridge Notes and corresponding increase to additional paid in capital based upon the relative fair values of the Bridge Notes and the Note Warrants. The discount is being accreted over the contracted term of the Bridge Notes of 2.27 years from the date of issuance on November 15, 2007.

The effectiveness of the conversion option embedded in the Bridge Notes was contingent upon the completion of a Qualified offering. The final closing of the Private Placement was completed on February 12, 2008. Accordingly, the holders of the Bridge Notes have the right to demand repayment of these notes in cash at any time after February 12, 2008 or convert, at their option, the outstanding principal into 333,333 shares of our common stock and receive cash payment of accrued and unpaid interest. The intrinsic value of the beneficial conversion feature of the Bridge Notes was determined to be \$0.47 per share or an aggregate of \$156,169 representing more than 100% of the remaining undiscounted face value of the Bridge Notes. Accordingly, an additional discount of \$128,000 to the face value of the Bridge Notes was recorded for the beneficial conversion feature of the Bridge Notes. The discount related to the beneficial conversion feature of the Bridge Notes is being accreted over the remaining contractual term of the Notes. In addition, vesting commenced on the Contingent Bridge Note Warrants on February 12, 2008.

We recorded contractual interest expense of \$10,156 and \$6,900 for the years ended September 30, 2008 and 2009. We recorded accretion of \$30,628 and \$95,717 for the years ended September 30, 2008 and 2009, respectively which is classified as a component of interest expense in the accompanying Statement of Operations for the years ended September 30, 2008 and 2009. The carrying value of the notes amounts to

BEACON ENTERPRISE SOLUTIONS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

\$71,160 net of unamortized discounts amounting to \$128,840 as of September 30, 2008 and \$166,879 net of unamortized discounts amounting to \$33,123 as of September 30, 2009. We recorded \$22,280 and \$16,240 of non-cash interest expense related to the 32,000 and 64,000 Contingent Bridge Note Warrants that vested and became exercisable during the years ended September 30, 2008 and 2009, respectively. The fair value of the vested Contingent Bridge Note Warrants was calculated using the Black-Scholes valuation model as detailed in the following table:

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
2/15/2008	4,000	1,825	\$ 1.00	\$ 1.35	66.34%	0%	2.76%	\$ 0.86	\$ 3,440.00
3/15/2008	4,000	1,796	\$ 1.00	\$ 1.04	66.34%	0%	2.37%	\$ 0.60	\$ 2,400.00
4/15/2008	4,000	1,765	\$ 1.00	\$ 1.15	66.34%	0%	2.68%	\$ 0.69	\$ 2,760.00
5/15/2008	4,000	1,735	\$ 1.00	\$ 0.95	66.34%	0%	3.10%	\$ 0.53	\$ 2,120.00
6/15/2008	4,000	1,704	\$ 1.00	\$ 1.01	66.34%	0%	3.73%	\$ 0.58	\$ 2,320.00
7/15/2008	4,000	1,674	\$ 1.00	\$ 1.25	66.34%	0%	3.12%	\$ 0.76	\$ 3,040.00
8/15/2008	4,000	1,643	\$ 1.00	\$ 1.50	66.34%	0%	3.11%	\$ 0.97	\$ 3,880.00
9/15/2008	4,000	1,612	\$ 1.00	\$ 1.05	66.34%	0%	2.59%	\$ 0.58	\$ 2,320.00
For the year ended September 30, 2008									\$ 22,280.00
10/15/2008	4,000	1,582	\$ 1.00	\$ 1.20	66.34%	0%	2.90%	\$ 0.70	\$ 2,800.00
11/15/2008	4,000	1,551	\$ 1.00	\$ 0.85	66.34%	0%	2.33%	\$ 0.42	\$ 1,680.00
11/20/2008	56,000	1,546	\$ 1.00	\$ 0.55	66.34%	0%	1.94%	\$ 0.21	\$ 11,760.00
For the year ended September 30, 2009									\$ 16,240.00

Pursuant to the unconditional forbearance to demand payment of the notes, the Contingent Bridge Facility Warrants, the unvested portion fully vested on November 20, 2008, the date the forbearance became effective and a charge for the remaining unvested warrants will be recognized as of that date.

Integra Bank

On March 14, 2008, Beacon and Integra Bank entered into a credit facility, under which we borrowed \$600,000 at a 6.25% annual interest rate with monthly payments of \$11,696 over a 60 month term that matures on March 12, 2013. The first payment was made on April 14, 2008. The proceeds of the note were used to repay three previously outstanding notes assumed in the acquisitions, two of which were in default due to change in control provisions. We also used a portion of the proceeds from the new installment obligation to refinance \$195,000 of previously outstanding indebtedness due to the same creditor. The effect of having refinanced the previous indebtedness with this same creditor was insignificant to and therefore was not deemed to be a constructive extinguishment of the previous balance. Accordingly, no gain or loss has been recognized. During the year ended September 30, 2008 and 2009 we paid \$70,178 and \$140,415, respectively of which \$51,938 and \$109,220 represented principal payments and \$18,240 and \$31,195 represented interest. We recognized \$19,930 and \$31,216 of interest expense related to this obligation of which \$1,690 and \$1,811 was in accrued expenses at September 30, 2008 and 2009, respectively.

Acquisition Notes

Notes payable with an aggregate value of \$1,843,500 were issued as purchase consideration in our business combinations as described in Note 4. The terms of these notes, including provisions for partial

BEACON ENTERPRISE SOLUTIONS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

acceleration in the event we raise additional equity capital in future financing transactions, adjustments related to performance terms within the asset and stock purchase agreements, and optional prepayment provisions, are more fully described in Note 4.

During the years ended September 30, 2008 and 2009, Beacon paid approximately \$220,000 and \$351,000 in principal payments on our term debt. We recorded interest expense of approximately \$74,000 and \$88,000 for our term loans and paid approximately \$28,000 and \$75,000 for the years ended September 30, 2008 and 2009, respectively.

The following table summarizes the remaining debt principal payment obligations by year for the long-term debt other than the Bridge Financing Facility, Bridge Notes, and short term line of credit which are presumed to be paid within the next twelve months:

	Fiscal Year Ended September 30,
2010	\$ 475,348
2011	377,358
2012	321,260
2013	103,717
	<u>\$ 1,277,683</u>

Substantially all of our assets are pledged as collateral under our various debt obligations and tax liens pursuant to the Strategic acquisition as described in Notes 4 and 12.

NOTE 12 — RELATED PARTY TRANSACTIONS

On July 16, 2007, Beacon entered into a \$500,000 Bridge Financing Facility provided by two of our founding stockholders who are also directors of our Company. See Note 10 for further details.

On November 15, 2007, we issued \$200,000 of convertible notes payable (the "Bridge Notes") in a separate debt financing. Of this amount, \$100,000 of the Bridge Notes was issued to one of the directors of Beacon. See Note 10 for further details.

Beacon has obtained insurance through an agency owned by one of our founding stockholders/directors. Insurance expense paid through the agency for the year ended September 30, 2008 and 2009 was \$114,378 and \$190,000 and is included in selling, general and administrative expense in the accompanying consolidated statement of operations.

On December 28, 2007, we entered into an equity financing arrangement with two of our directors that provided up to \$300,000 of additional funding, the terms of which provided for compensation of 10,000 warrants to purchase common stock at \$1.00 per share per month, to each individual for the period the financing arrangement was in effect. The warrants have a five-year term. The financing arrangement was terminated upon the close of the Series A-1 Placement. Accordingly, we recognized \$58,700 of interest expense for the years ended September 30, 2008 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
1/28/2008	20,000	1,825	\$1.00	\$ 1.90	66.34%	0%	2.80%	\$ 1.34	\$ 26,800
2/28/2008	20,000	1,825	\$1.00	\$ 1.50	66.34%	0%	2.73%	\$ 0.99	\$ 19,800
3/7/2008	10,000	1,825	\$1.00	\$ 1.75	66.34%	0%	2.45%	\$ 1.21	\$ 12,100

BEACON ENTERPRISE SOLUTIONS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

On May 15, 2008, we entered into an equity financing arrangement with one of our directors that provided up to \$500,000 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 financing arrangement terminates upon the close of a \$3,000,000 equity financing event. On August 19, 2008, we modified the agreement to increase the commitment to \$3,000,000 of additional funding that decreases on a dollar for dollar basis as we raise capital in subsequent equity financing transactions up to \$3,000,000, upon mutual agreement of our director and us, or on December 31, 2008. As of September 30, 2008, \$1,700,000 remained available under this equity arrangement. In consideration for this financing arrangement, we agreed to issue a five year warrant to purchase 100,000 shares of common stock at an exercise price of \$1.00 per share in addition to the ongoing warrants earned under the original agreement. Accordingly, we recognized \$176,999 and \$288,945 of interest expense for the years ended September 30, 2008 and 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
6/15/2008	33,333	1,825	\$ 1.00	\$ 1.01	66.34%	0%	3.73%	\$ 0.58	\$ 19,333
7/15/2008	33,333	1,825	\$ 1.00	\$ 1.25	66.34%	0%	3.12%	\$ 0.78	\$ 26,000
8/15/2008	33,333	1,825	\$ 1.00	\$ 1.50	66.34%	0%	3.41%	\$ 1.00	\$ 33,333
8/19/2008	100,000	1,825	\$ 1.00	\$ 1.25	66.34%	0%	3.07%	\$ 0.78	\$ 78,000
9/15/2008	33,333	1,825	\$ 1.00	\$ 1.05	66.34%	0%	2.59%	\$ 3.61	\$ 20,333
For year ended September 30, 2008									\$ 176,999
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
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
4/9/2009	33,333	1,825	\$ 1.00	\$ 0.75	66.34%	0%	1.90%	\$ 0.37	\$ 12,333
5/9/2009	33,333	1,825	\$ 1.00	\$ 1.19	66.34%	0%	2.09%	\$ 0.72	\$ 23,970
6/9/2009	33,333	1,825	\$ 1.00	\$ 1.35	66.34%	0%	2.73%	\$ 0.86	\$ 28,666
7/9/2009	33,333	1,825	\$ 1.00	\$ 1.61	66.34%	0%	2.31%	\$ 1.08	\$ 35,983
8/9/2009	33,333	1,825	\$ 1.00	\$ 1.20	66.34%	0%	2.75%	\$ 0.74	\$ 24,533
9/9/2009	33,333	1,825	\$ 1.00	\$ 1.00	66.34%	0%	2.38%	\$ 0.57	\$ 18,960
For year ended September 30, 2009									\$ 288,945

In addition, contingent upon the drawdown of any part of the equity financing commitment, the director would earn the right to purchase up to 1,655,425 shares of their stock owned by the investors for a purchase price of \$0.01 per share. The equity financing arrangement expired on December 16, 2009 upon closing of a \$3,000,000 of equity financing at which time the directors contingent right to acquire the shares of the founding shareholders was terminated.

On July 14, 2008, we issued 400 shares of Series B Preferred Stock and 200,000 ("Series B Offering Warrants") five year common stock purchase warrants exercisable at \$1.20 per share in a Private Placement transaction for proceeds of \$400,000 from one of our directors. The Series B Preferred Stock is convertible into common stock at any time, at the option of the holder at a conversion price of \$0.90 per share. The

BEACON ENTERPRISE SOLUTIONS GROUP, INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Series B Preferred Stock is 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.

On August 20, 2008, we entered into a \$100,000 debt financing arrangement with one of our directors under which we borrowed \$100,000 at a 12.00% annual interest rate the principal of which is not due on any specific date. We also paid a 1.00% origination fee upon initiation of the credit facility. The proceeds of the credit facility were used as short term working capital collateralized by our accounts receivable. We have accrued \$2,400 of interest expense related to this credit facility during the year ended September 30, 2008 which is included in accrued expenses and other current liabilities in the consolidated financial statements

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, 2009. We are 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 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 August 10, 2009, we renewed the existing equity financing arrangement to provide a commitment of up to \$3.0 million of additional funding. 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 stockholders at a purchase price of \$0.001 per share. The financing available under this arrangement 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 Terminated on December 15, 2009 upon close of \$3,000,000 financing event.

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 \$230,000 and \$1.7 million for procurement and installation services provided under this marketing agreement, of which \$195,000 and \$465,000 is recorded as accounts receivable in the accompanying balance sheet for the years ended September 30, 2008 and 2009.

On August 7, 2009, we entered into a non-interest bearing demand note with one of our directors in the amount of \$500,000. See Note 10 for further information.

NOTE 13 — COMMITMENTS AND CONTINGENCIES**Employment Agreements**

The Company has entered into at will employment agreements with seven of its key executives with no specific expiration dates that provide for aggregate annual compensation of \$1,170,000 and up to \$1,263,000 of severance payments for termination without cause.

BEACON ENTERPRISE SOLUTIONS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 is as follows:

	Fiscal Year Ending September 30, 2009
2010	\$ 123,423
2011	19,400
	<u>\$ 142,823</u>

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. For the year ended September 30, 2009 we paid \$50,000 and issued 50,000 shares of restricted common stock, with aggregate fair value of \$43,800, under the terms of this agreement. The common stock issued under this agreement was recorded as professional fees expense using the measurement principles enumerated under ASC 505 "Equity-Based Payment to Non-Employee". The contract has a 12 month term and can be terminated upon 30 days notice.

On June 5, 2009 our Board of Directors authorized us to issue an additional 150,000 shares of common stock to the same investor relations firm subject to the attainment of certain performance conditions, to be performed within a six month time period ending November 5, 2009. The performance based share arrangement supercedes the previous agreement. As of September 30, 2009 20,000 shares with an aggregate fair value of \$40,300 were deemed to have been earned as of the date of issuance. The common stock issued was recorded as professional fees expense using the measurement principles enumerated under ASC 505.

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 ASC 505. We recorded \$560,850 of expense including cash in the amount of \$480,850 and shares with a fair value of \$80,000, which was terminated July 30, 2009.

Engagement for Advisory Services

On January 1, 2009, we entered into a three year advisory agreement with an outside party whereby the party will provide corporate finance and business strategy advisory services pertaining to Beacon's business affairs in the areas of business combinations, financing, etc. The agreement provides for compensation of \$25,000 per month, any part of which can be prepaid. For the year end September 30, 2009 we have recognized \$225,000 of professional fees expense under this agreement and have recorded a prepayment of \$320,000 for future services which has been classified as prepaid expense in the accompanying Consolidated Balance Sheet as of September 30, 2009.

BEACON ENTERPRISE SOLUTIONS GROUP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

NOTE 14 — STOCKHOLDERS' EQUITY

Authorized Capital

Beacon 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.

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 holders of the Series A and Series A-1 are entitled to receive 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 earned with respect to this feature amounted to \$195,000 and \$430,000 for the Series A, \$25,000 and \$86,000 for the Series A-1, \$0 and \$32,000 for the Series B as of September 30, 2008 and 2009 respectively, and are presented as an increase in net loss available to the common stockholders of \$220,000 and \$548,000 for the year ended September 30, 2008 and 2009. Unpaid but accrued amounts with respect to this feature amount to \$195,000 and \$5,600 for the Series A, \$25,000 and \$0 for Series A-1 and \$0 and \$32,000 for Series B. The Company has the option of paying the dividend in either common stock or cash.

The Series A, A-1 and B Preferred Stock designations 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 have 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 liquidation preference is \$3,171,999 for the Series A, \$940,678 for the Series A-1, and \$914,818 for the Series B preferred, respectively, as of September 30, 2009.

Beacon, 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.

Private Placement of Convertible Preferred Stock*Series A Preferred Stock Placement*

During the year ended September 30, 2008, we issued in three Private Placement transactions, an aggregate of 4,000 shares of our Series A convertible preferred stock and five year common stock purchase warrants exercisable at \$1.00 per share for net proceeds of \$3,276,610 (gross proceeds of \$4,000,000 less

BEACON ENTERPRISE SOLUTIONS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

offering costs of \$723,390). Offering costs included fees paid to the placement agent of \$650,000 and legal and related expenses of \$73,390 in addition to warrants granted to the placement agent to purchase 1,040,000 shares of our common stock at \$1.00 per share with a 5 year term. An additional 600,000 warrants to purchase shares of our common stock at \$1.00 per share with a 5 year term were earned by and issued to affiliates of the placement agent.

For the year ended September 30, 2009, 2,635 shares of Series A with a stated value of \$2,635,049 were converted to 3,513,400 of common stock. Additionally 619 shares of Series A, with a stated value of \$619,123 were issued as paid-in-kind dividends.

The Series A is 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 preferred shares. The Series A is 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.

As described in Note 3, we evaluated the conversion options embedded in the Series A securities to determine (in accordance ASC 815) whether they should be bifurcated from their host instruments and accounted for as separate derivative financial instruments. We determined 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. During the years ended September 30, 2008 and 2009, based on an evaluation of the beneficial conversion feature of the Series A Preferred Shares, we recorded deemed dividends of \$2,483,715 and \$157,655. The table below lists the detailed fair value of the warrants issued in each of the three closings of the Series A Preferred Stock Private Placement. The fair values were calculated using the Black-Scholes option pricing model with the following assumptions:

Date Issued	Quantity of Warrants Issued	Estimated Fair Value per Warrant	Estimated Fair Value of Warrants	Fair Value of Undlying Common Stock	Risk-Free Interest Rate	Expected Dividend Yield	Life (Years)	Current Volatility
12/20/2007	1,622,600	\$ 0.46	\$ 746,396	\$ 0.85	3.45%	0%	5	66.34%
1/15/2008	480,333	\$ 0.78	\$ 374,660	\$ 1.25	3.00%	0%	5	66.34%
2/12/2008	563,733	\$ 0.78	\$ 439,712	\$ 1.25	2.71%	0%	5	66.34%

Accordingly, deemed dividends related to the conversion feature were recorded based on the difference between the effective conversion price of the conversion option and the fair value of the common stock at the commitment date of the transaction detailed in the table below.

Date of Issue/ Commitment Date	Fair Value of Common Stock on Commitment Date	Effective Conversion Price	Intrinsic Value of Beneficial Conversion Feature	Common Shares Issuable upon Conversion	Deemed Dividend
12/20/2007	\$ 0.85	\$ 0.57	\$ 0.28	3,245,200	\$ 903,878
1/15/2008	\$ 1.25	\$ 0.49	\$ 0.76	960,667	\$ 726,820
2/12/2008	\$ 1.25	\$ 0.49	\$ 0.76	1,127,466	\$ 853,017

We have reserved 2,645,437 shares of our common stock for issuance upon the conversion of its Series A convertible preferred stock and 2,666,666 shares of our common stock for issuance upon exercise of the Investor Warrants.

BEACON ENTERPRISE SOLUTIONS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

As described in Note 3, we apply the classification and measurement principles enumerated in ASC 815 with respect to accounting for our issuances of the Series A preferred stock. We are required, under Nevada law, to obtain the approval of our 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 our assets. The board of directors is then required to submit proposals to enter into these types of transactions to our stockholders for their approval by majority vote. The preferred stockholders do not currently (i) control or have representation on our 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 us in our sole discretion. Based on these provisions, we classified the Series A preferred shares as permanent equity in the accompanying consolidated balance sheet because the liquidation events are deemed to be within our sole control.

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

Series A-1 Preferred Stock Placement

On March 7 and 11, 2008, we issued, in two closing of a Private Placement transaction, an aggregate of 800 shares of our Series A-1 convertible preferred stock and 533,333 five year common stock purchase warrants exercisable at \$1.00 per share for net proceeds of \$599,850 (gross proceeds of \$800,000 less offering costs of \$200,150). Offering costs included fees paid to the placement agent of \$104,000, a fee for the successful completion of the placement of \$60,000 and \$36,150 in legal and related fees in addition to warrants to purchase 208,000 shares of our common stock at \$1.00 per share with a 5 year term. The Series A-1 Preferred Stock is 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 for shares of Series A-1 Preferred Stock. The Series A-1 Preferred Stock is 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.

For the year ended September 30, 2009, 159 shares of Series A-1 with a stated value of \$158,598 were converted to 211,464 of common stock. Additionally 111 shares of Series A-1, with a stated value of \$110,945 were issued as paid-in-kind dividends.

As described in Note 3, we evaluated the conversion options embedded in the Series A-1 securities to determine (in accordance with ASC 815) whether they should be bifurcated from their host instruments and accounted for as separate derivative financial instruments. We determined 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. During the year ended September 30, 2008 and 2009, based on an evaluation of the beneficial conversion feature of the Series A-1 Preferred Shares, the Company recorded deemed dividends of \$1,411,882 and \$32,706. The table below lists the fair value of the warrants issued in each of the two closings of the Series A-1 Preferred Stock Private Placement. The fair values were calculated using the Black-Scholes option pricing model with the following assumptions:

Date Issued	Quantity of Warrants Issued	Estimated Fair Value per Warrant	Estimated Fair Value of Warrants	Fair Value of Undlying Common Stock	Risk-Free Interest Rate	Expected Dividend Yield	Life (Years)	Current Volatility
3/7/2008	515,200	\$ 1.20	\$ 618,240	\$ 1.75	2.45%	0%	5	66.34%
3/11/2008	18,133	\$ 0.99	\$ 17,952	\$ 1.50	2.61%	0%	5	66.34%

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Accordingly, deemed dividends related to the conversion feature were recorded based on the difference between the effective conversion price of the conversion option and the fair value of the common stock at the commitment date of the transaction detailed in the table below.

Date of Issue/ Commitment Date	Fair Value of Common Stock on Commitment Date	Effective Conversion Price	Intrinsic Value of Beneficial Conversion Feature	Common Shares Issuable upon Conversion	Deemed Dividend
3/7/2008	\$ 1.75	\$ 0.42	\$ 1.33	1,030,400	\$ 1,373,867
3/11/2008	\$ 1.50	\$ 0.45	\$ 1.05	36,267	\$ 38,015

We have reserved 1,003,129 shares of our common stock for issuance upon the conversion of our Series A-1 convertible preferred stock and 533,333 shares of our common stock for issuance upon exercise of the Investor Warrants.

As described in Note 3, we apply the classification and measurement principles enumerated in ASC 815 with respect to accounting for our issuances of the Series A-1 preferred stock. We are required, under Nevada law, to obtain the approval of our 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 our assets. The board of directors is then required to submit proposals to enter into these types of transactions to our stockholders for their approval by majority vote. The preferred stockholders do not currently (i) control or have representation on our 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 us in our sole discretion. Based on these provisions, we classified the Series A-1 preferred shares as permanent equity in the accompanying consolidated balance sheet because the liquidation events are deemed to be within our sole control.

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

Series B Preferred Stock Placement

On July 14, 2008, we issued 400 shares of Series B Preferred Stock and 200,000 ("Series B Offering Warrants") five year common stock purchase warrants exercisable at \$1.20 per share in a Private Placement transaction for proceeds of \$400,000 from one of our directors. The Series B Preferred Stock is convertible into common stock at any time, at the option of the holder at a conversion price of \$.80 per share. The Series B Preferred Stock is 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.

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, 2009. 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.

The Series B Offering Warrants have a five year exercise period and an exercise price of \$1.20 per share of the Company's common stock, payable in cash on the exercise date. The exercise price is subject to adjustment upon certain occurrences specified in the Series B Offering Warrants. The shares of Series B Preferred Stock have terms similar to those of the shares of Series A Preferred Stock and Series A-1 Preferred Stock, but are junior to those shares with respect to dividend rights, liquidation preferences and registration.

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rights. The Company has used the proceeds of the closing to pay certain expenses of the Company and for working capital.

As described in Note 3, we evaluated the conversion options embedded in the Series B securities to determine (in accordance with ASC 815) whether they should be bifurcated from their host instruments and accounted for as separate derivative financial instruments. We determined 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. During the year ended September 30, 2008, based on an evaluation of the beneficial conversion feature of the Series B Preferred Shares, the Company recorded deemed dividends of \$135,163 and \$10,315. The table below lists the fair value of the warrants issued at the closing of the Series B Preferred Stock Private Placement. The fair values were calculated using the Black-Scholes option pricing model with the following assumptions:

Date Issued	Quantity of Warrants Issued	Estimated Fair Value per Warrant	Estimated Fair Value of Warrants	Fair Value of Undelying Common Stock	Risk-Free Interest Rate	Expected Dividend Yield	Life (Years)	Current Volatility
7/10/2008	200,000	\$ 0.55	\$ 110,000	\$ 1.01	3.10%	0%	5	66.34%

Accordingly, deemed dividends related to the conversion feature were recorded based on the difference between the effective conversion price of the conversion option and the fair value of the common stock at the commitment date of the transaction detailed in the table below.

Date of Issue/Commitment Date	Fair Value of Common Stock on Commitment Date	Effective Conversion Price	Intrinsic Value of Beneficial Conversion Feature	Common Shares Issuable upon Conversion	Deemed Dividend
7/10/2008	\$ 1.01	\$ 0.71	\$ 0.30	444,444	\$ 135,163

We have reserved 875,000 shares of our common stock for issuance upon the conversion of our Series B convertible preferred stock and 350,000 shares of our common stock for issuance upon exercise of the Investor Warrants.

At our option, we can redeem the Series B Preferred Stock, and any dividends issued there under, for a 1% origination fee and 1% interest per month on the outstanding face value of the Series B preferred stock. As of September 30, 2009, we have not made a determination as to whether we will redeem the Series B Preferred Stock.

As described in Note 3, we apply the classification and measurement principles enumerated in ASC 815 with respect to accounting for our issuances of the Series B preferred stock. We are required, under Nevada law, to obtain the approval of our 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 our assets. The board of directors is then required to submit proposals to enter into these types of transactions to our stockholders for their approval by majority vote. The preferred stockholders do not currently (i) control or have representation on our 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 us in our sole discretion. Based on these provisions, we classified the Series B preferred shares as permanent equity in the accompanying consolidated balance sheet because the liquidation events are deemed to be within our sole control.

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

Preferred Stock Dividends

On March 26, 2008, October 7, 2008, February 12, 2009 and June 5, 2009 we elected to pay the contractual dividends due the Series A, A-1, and B preferred stockholders in additional shares of the related

BEACON ENTERPRISE SOLUTIONS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

preferred stock. We follow the guidelines of ASC 505 Dividends and Stock Splits when accounting for pay-in-kind dividends that are settled in convertible securities with beneficial conversion features. Therefore, we recorded deemed dividend related to the conversion feature based on the difference between the effective conversion price of the conversion option and the fair value of the common stock on the date of election which is considered the commitment date. The following table contains information related to the contractual dividends issued pursuant to our preferred stock:

Preferred Stock Series	Date of Contractual Dividend	Date of Election (Commitment Date)	Contractual Preferred Stock Dividend	Conversion Price per Common Share	Common Shares Underlying Dividend	Closing Price on Date of Election	Fair Value of Underlying Common Stock	Fair Value of Contractual Preferred Stock Dividend	Deemed Dividend Related to Beneficial Conversion Feature
A	1/1/2008	3/26/2008	\$ 7,335	\$ 0.75	9,780	\$ 1.20	\$ 11,736	\$ 7,335	\$ 4,401
A	4/1/2008	3/26/2008	\$ 87,569	\$ 0.75	116,759	\$ 1.20	\$ 140,111	\$ 87,569	\$ 52,542
A	7/1/2008	10/7/2008	\$ 100,000	\$ 0.75	133,333	\$ 1.24	\$ 165,333	\$ 100,000	\$ 65,333
A-1	4/1/2008	3/26/2008	\$ 5,450	\$ 0.75	7,267	\$ 1.20	\$ 8,720	\$ 5,450	\$ 3,270
A-1	7/1/2008	10/7/2008	\$ 20,000	\$ 0.75	26,667	\$ 1.24	\$ 33,067	\$ 20,000	\$ 13,067
Total For year end September 30, 2008			\$ 220,354		293,806		\$ 358,967		\$ 138,613
A	10/1/2008	10/7/2008	\$ 100,000	\$ 0.75	133,333	\$ 1.24	\$ 165,333	\$ 100,000	\$ 65,332
A	1/1/2009	1/9/2009	\$ 100,000	\$ 0.75	133,333	\$ 0.80	\$ 106,666	\$ 100,000	\$ 6,666
A	4/1/2009	2/17/2009	\$ 126,213	\$ 0.75	168,284	\$ 0.55	\$ 92,556	\$ 126,213	\$ —
A	7/1/2009	6/5/2009	\$ 103,618	\$ 0.75	138,157	\$ 1.37	\$ 189,275	\$ 103,618	\$ 85,657
A-1	10/1/2008	10/7/2008	\$ 20,000	\$ 0.75	26,667	\$ 1.24	\$ 33,067	\$ 20,000	\$ 13,067
A-1	1/1/2009	1/9/2009	\$ 20,000	\$ 0.75	26,667	\$ 0.80	\$ 21,334	\$ 20,000	\$ 1,334
A-1	4/1/2009	2/17/2009	\$ 23,549	\$ 0.75	31,399	\$ 0.55	\$ 17,269	\$ 23,549	\$ —
A-1	7/1/2009	6/5/2009	\$ 22,142	\$ 0.75	29,523	\$ 1.37	\$ 40,447	\$ 22,142	\$ 18,305
B	10/1/2008	10/7/2008	\$ 5,152	\$ 0.80	6,440	\$ 1.24	\$ 7,986	\$ 5,152	\$ 2,834
B	1/1/2009	1/9/2009	\$ 6,000	\$ 0.80	7,500	\$ 0.80	\$ 6,000	\$ 6,000	\$ —
B	4/1/2009	2/17/2009	\$ 10,502	\$ 0.80	13,128	\$ 0.55	\$ 7,220	\$ 10,502	\$ —
B	7/1/2009	6/5/2009	\$ 10,500	\$ 0.80	13,125	\$ 1.37	\$ 17,981	\$ 10,500	\$ 7,481
Total For year end September 30, 2009			\$ 547,676		727,556		\$ 705,134		\$ 200,676

Registration Rights

Pursuant to the terms of the registration rights agreement entered into in connection with the Series A Private Placement, Series A-1 Private Placement and Series B Private Placement, we agreed to file with the SEC as soon as is practicable after completion of the offering a registration statement (the "Registration Statement") and use our best efforts to have the Registration Statement declared effective not later than June 30, 2008. The Registration Statement would register for resale (i) the shares of our common stock underlying the units sold in the Private Placement (the "Units") and (ii) the shares of our common stock issuable upon the exercise of the warrants issued to the investors and agents in these Private Placements. We agreed to use commercially reasonable best efforts to have such "resale" Registration Statement declared effective by the SEC as soon as possible and, in any event, not later than June 30, 2008 and to pay penalties for failure to have the Registration Statement declared effective at that date. On April 18, 2008, the Placement Agent waived the registration right and potential penalty subject to consent of 60% of the holders of the Series A, Series A-1 and Series B Preferred Stock which was subsequently obtained.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company applies FASB ASC 815 “Contracts in Entity’s Own Equity,” with respect to determining whether to record a liability for contingent consideration potentially transferable to security holders covered under registration rights agreements.

Issuances of Common Stock in Business Combinations

For the year ended September 30, 2008 we issued 3,225,000 of common stock in connections with business combinations described in Note 4. The aggregate fair value of these shares amounted to \$2,741,250.

We issued 400,000 shares of common stock in connection with business combinations described in Note 4. The aggregate fair value of these shares amounted to \$436,855.

Restricted Stock Grant

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 account for share-based compensation under ASC 718 “Compensation — Stock Compensation,” which requires us to expense the fair value of grants made under the share based compensation programs over the vesting period of each individual agreement. We recognize non-cash share-based compensation expense ratably over the requisite service period which generally equals the vesting period of awards, adjusted for expected forfeitures. We recognized \$266,693 and \$179,422 of non-cash share-based compensation expense during the years ended September 30, 2008 and 2009, in connection with such grants. Unamortized compensation under this arrangement amounted to \$400,024 and \$220,602 as of September 30, 2008 and 2009 and will be amortized over the remaining vesting period. 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.

Compensatory Warrants Issuance

On March 26, 2008, Beacon issued warrants to purchase 300,000 shares of common stock at \$1.00 per share with a five-year term to one of our directors. Accordingly, we recognized \$219,000 of share-based compensation expense for the year ended September 30, 2008 based on the fair value of the warrants on the grant date. The fair value was calculated using the Black-Scholes option pricing model with the following assumptions:

Grant Date	Quantity Granted	Expected Life (Days)	Strike Price	Underlying Price	Volatility	Dividend Yield	Risk-Free Interest Rate	Value per Warrant	Charge to Interest Expense
3/26/2008	300,000	1,825	\$ 1.00	\$ 1.20	66.34%	0%	2.55%	\$ 0.73	\$ 219,000

Sales of Common Stock and Warrants

On July 25, 2008, we engaged a registered broker-dealer (the “Placement Agent”) in a private placement 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, an “Common Offering Warrant”) at a purchase price of \$1.00 per share (collectively the “Common Offering”). In the event that the Common Offering is oversubscribed, we may sell and issue up to an additional 562,500 Common Units.

BEACON ENTERPRISE SOLUTIONS GROUP, INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

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.

As of September 30, 2008, we have sold 1,625,000 Common Units to accredited investors for net proceeds of \$1,063,726 (an aggregate purchase price of \$1,300,000 less direct offering costs of \$236,784). Direct offering costs included placement agent commissions of \$130,000, non-accountable placement agent expenses of \$36,500, legal expenses of \$47,965, success fees of \$39,000 payable to one of our founders, and printing and blue sky fees of \$11,319. We have used the proceeds of the Common Offering to provide working capital. In addition, the Placement Agent has earned warrants to purchase an aggregate of 243,750 shares of Common Stock.

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 \$.80 per unit Common Stock (each, an “Common Offering Warrant”). For the year ended September 30, 2009 an anti-dilution provision of the stock offering resulted in a requirement to issue an additional 285,139 shares of common stock at par value \$0.001 or \$285.14.

On June 10, 2009 Beacon commenced a Private Placement of up to \$600,000 of common units at a price of \$.80 per unit. Each Unit consists 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”).

On September 18, 2009 Beacon commenced a Private Placement of up to \$3,000,000 of common units at a price of \$.80 per unit. Each Unit consists 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”).

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. All of the warrants issued in the June 2008, November 2008 and June 2009 private placements feature standard anti dilution provisions for stock splits, stock dividends and similar types of recapitalization events. These warrants also feature weighted average price protection for subsequent issuances of equity securities at prices more favorable than the exercise price stipulated in these warrants. In addition, the Company has agreed to use its best efforts to file a registration statement for the resale of any all shares issued and shares underlying common stock purchase warrants issued in these private placements. These registration rights do not provide for the Company to incur any penalties for its failure to file, cause or maintain the effectiveness of such registration statements; however, the Company is subject to a penalty in the amount of 2% of the gross proceeds per month in the event it fails to maintain compliance with the Exchange Act reporting requirements. The Company believes it is probable that it will not incur any such penalties.

During the year ended September 30, 2009, we sold an aggregate of 6,853,497 Common Units, under all of these offerings, to accredited investors for net proceeds of \$4,346,675 (gross proceeds of \$5,485,249 less offering costs of \$1,138,574). Offering costs included fees paid to the placement agent of \$859,146, a fee for the successful completion of the placement of \$156,987 paid to a consultant and \$122,441 legal and related

BEACON ENTERPRISE SOLUTIONS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

fees in addition to warrants to purchase 3,422,103 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.

During the year ended September 30, 2009 549,918 warrants were exercised into 196,145 shares of common stock.

NOTE 15 — INCOME TAXES

The income tax (provision) benefits consists of the following:

	2008	2009
Federal:		
Current		
Deferred	1,451,792	2,216,449
Total federal	1,451,792	2,216,449
State:		
Current		
Deferred	166,530	254,240
Total state	166,530	254,240
Foreign:		
Current		(97,581)
Deferred		(97,581)
	—	(97,581)
	1,618,322	2,373,108
Change in valuation allowance	(1,663,794)	(2,528,701)
Total provision	\$ (45,472)	\$ (155,593)

A reconciliation of the statutory federal income tax rate to our effective tax rate follows:

	For the Twelve Months Ended September 30, 2008	For the Twelve Months Ended September 30, 2009
Tax benefit at statutory rate	34.0%	34.0%
State income taxes, net of federal benefit	3.9	3.9
Foreign income taxes		1.6
Non-deductible expenses	(2.8)	(.6)
Increase in valuation allowance	(36.1)	(41.4)
Effective income tax rate	(1.0)	(2.5)

BEACON ENTERPRISE SOLUTIONS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The components of deferred tax assets and liabilities are as follows:

	As of September 30, 2008	As of September 30, 2009
Deferred tax assets		
Capitalized start up and organization costs	\$ 46,257	\$ 42,953
Depreciation and amortization	81,265	135,039
Accrued expenses	36,557	79,875
Bad debt reserve	18,950	59,125
Inventory obsolescence reserve	13,287	67,758
Share based payments	189,624	400,891
Net operating loss carryforwards	1,872,812	4,001,813
Total deferred tax assets	2,258,752	4,787,454
Less valuation allowance	(2,258,752)	(4,787,454)
Net deferred tax assets	—	—
Deferred tax liabilities		
Tax deductible goodwill	(45,472)	(103,484)
Total deferred tax liabilities	\$ (45,472)	\$ (103,484)

As of September 30, 2009, we have approximately \$10.6 million of federal and state net operating loss carryforwards, respectively, available to offset future taxable income, if any. These carryforwards expire in 2023 through 2029. After considering all available evidence, we established a 100% valuation allowance for our net deferred tax asset since it is more likely than not that the benefits of such deferred tax assets will not be realized in future periods, deferred tax liabilities represent the difference between the financial reporting and income tax bases of the tax deductible goodwill, which is an asset with an indefinite life and therefore cannot be used to offset net deferred tax assets for purposes of establishing a valuation allowance.

We periodically evaluate whether or not we have undergone any ownership changes for income tax purposes that could trigger annual limitations on the use of our net operating losses under section 382 of the Internal Revenue Code and similar state income tax regulations. As of September 30, 2009 we had not triggered any significant limitations on the use of our Net Operating Losses. We adopted ASC 740 "Income Taxes" effective June 6, 2007 (date of inception). ASC 740 requires companies to recognize the impact of a tax position in their financial statements if that position is more likely than not of being sustained on audit based on the technical merits of the position. ASC 740 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. ASC 740 provides guidance on derecognition, classification, interest, and penalties, accounting in interim periods, and disclosure. The company is subject to audits by federal and state income tax authorities for reporting periods ending in 2007, 2008, and 2009 and by foreign tax authorities for 2008 and 2009. For the years ended September 30, 2008 and 2009, we had no material unrecognized 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 that a tax position will not be 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 when such expenses are incurred.

BEACON ENTERPRISE SOLUTIONS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

NOTE 16 — EMPLOYEE BENEFITS PLANS

Stock Options and Other Equity Compensation Plans

In March 2008, our Board of Directors adopted the 2008 Long Term Incentive Plan, subject to stockholder approval, referred to as the 2008 Incentive Plan. The 2008 Incentive Plan was approved by the stockholders 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, 700,000 are available for future grants as of September 30, 2009.

A summary of stock options that we granted during the years end September 30, 2008 and 2009 is as follows:

Date Earned	Quantity Issued	Expected Life (Days)	Strike Price	Volatility	Dividend Yield	Risk-Free Interest Rate	Value per Option	Share Based Compensation Expense
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
5/8/2009	2,500,000	2,373	\$ 1.19	66.34%	0%	2.09%	\$ 0.75	\$ 1,875,000
6/5/2009	50,000	2,373	\$ 1.37	66.34%	0%	2.85%	\$ 0.87	\$ 43,500
7/9/2009	250,000	2,373	\$ 1.61	66.34%	0%	2.33%	\$ 1.02	\$ 254,400

Shares granted vest 33% annually as of the anniversary of the grant through 2012 and carry a ten year contractual term.

We calculate the fair value of 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 included in the table above. The volatility rates are based on historical stock prices of similarly situated companies and expectations of the future volatility of our common stock. The expected life of options granted is based upon the average of the vesting and contractual 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 weighted average grant date fair value of options we granted during the years ended September 30, 2008 and 2009 amounted to \$0.70 and \$0.75 per share respectively.

BEACON ENTERPRISE SOLUTIONS GROUP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

A summary of the status of our stock option plan and the changes during the years ended September 30, 2008 and 2009, respectively, is presented in the table below:

	Number of Options	Weighted Average Exercise Price	Intrinsic Value	Weighted Average Remaining Contractual Term
Options Outstanding at October 1, 2007	—	\$ —		
Granted	120,900	\$ 1.15		
Forfeited	(30,000)	\$ 1.20		
Options Outstanding at September 30, 2008	90,900	\$ 1.13		
Granted	3,110,000	\$ 1.19		
Forfeited	—			
Options Outstanding at September 30, 2009	<u>3,200,900</u>	<u>\$ 1.19</u>	<u>0.10</u>	<u>9.56</u>
Exercisable, September 30, 2009	<u>105,300</u>	<u>\$ 1.13</u>	<u>0.39</u>	<u>8.53</u>

As of September 30, 2009, there was \$2,332,357 in unamortized share-based compensation cost. This cost is expected to be recognized over the remaining weighted average vesting period of 2.63 years.

Beacon Solutions 401(k) Plan

We maintain a defined contribution 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 the Company 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. 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 \$71,156 and \$17,367 for the year ended September 30, 2008 and 2009, respectively.

Segment Reporting

In accordance with ASC 280 "Segment Reporting," our operating segments are those components of our business for which separate and discreet financial information is available and is used by our chief operating decision makers, or decision-making group, in making decisions on how we allocate resources and assess performance.

Prior to our acquisition of Symbiotec (Note 4) we operated as a single segment. In accordance with ASC 280, the Company reports two operating segments, as a result of having complete the Symbiotec acquisition on July 29, 2009. The Company's chief decision-makers review financial information presented on a consolidated basis, accompanied by disaggregated information about revenue and operating profit each year by operating segment. This information is used for purposes of allocating resources and evaluating financial performance.

The accounting policies of the segments are the same as those described in the "Summary of Significant Accounting Policies." Segment data includes segment revenue, segment operating profitability, and total assets by segment. Shared corporate operating expenses are reported in the U.S. segment.

BEACON ENTERPRISE SOLUTIONS GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company is organized primarily on the basis of operating units which are segregated by geography in the United States ("U.S.") and Europe as follows effective July 29, 2009.

	United States	Europe	Total
Revenue	\$ 10,112,912	\$ 957,584	\$ 11,070,496
(Loss) income from operations	(5,704,605)	494,748	(5,209,857)
Interest expense	(905,125)		(905,125)
Interest income	686	39	725
Depreciation and amortization	(613,171)	(950)	(614,121)
Assets	10,874,908	1,938,840	12,813,748
Goodwill	2,791,648	360,300	3,151,948
Intangible assets	3,341,724	561,400	3,903,124

In our European operations 74% of the revenue was generated by one customer for the year ended September 30, 2009.

NOTE 17 — SUBSEQUENT EVENTS

Sale of Common Stock and Warrants

On September 28, 2009, we engaged a registered broker/dealer in a private placement (the "September 2009 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"). In the event that the September 2009 Common Offering is oversubscribed, we may sell and issue up to an additional 1,250,000 Common Units.

Subsequent to September 30, 2009. We sold 3,727,500 units for net proceeds of \$2,421,180 (gross proceeds of \$2,982,000 less offering costs of \$560,820).

Contractual Dividends

On October 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 \$102,000.

Grant of Stock Options

On November 12, 2009, our Board granted options to purchase 100,000 shares of our common stock at a strike price of \$0.90 per share, the closing price on the day of grant.

The Company has evaluated subsequent events through December 29, 2009, the issuance date of this Form 10-K.

Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

None.

Item 9A(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 September 30, 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, the Company's Chief Executive Officer and the Chief Accounting Officer have concluded that the Company's disclosure controls and procedures were not effective as of September 30, 2009, based on their evaluation of these controls and procedures required by paragraph (b) of Exchange Act Rules 13a-15 or 15d-15.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting and for the assessment of the effectiveness of internal control over financial reporting. As defined by the Securities and Exchange Commission, internal control over financial reporting is a process designed by, or under the supervision of our principal executive and principal financial officers and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles.

Our internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the consolidated financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In connection with the preparation of our annual consolidated financial statements, management has undertaken an assessment of the effectiveness of our internal control over financial reporting as of September 30, 2009 based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, or the COSO Framework. Management's assessment included an evaluation of the design of our internal control over financial reporting and testing of the operational effectiveness of those controls.

Based on this evaluation, management has concluded that our internal control over financial reporting was ineffective as of September 30, 2009.

Beacon is the successor to Suncrest Global Energy Corp.'s obligation to provide management's report on internal controls in accordance with Section 404a of the Sarbanes-Oxley Act of 2002. We were a privately owned company with no operations when we merged with Suncrest Global Energy Corp. on December 20, 2007 in a transaction that was accounted for as a reverse merger and recapitalization. We simultaneously

completed the acquisition of four privately owned businesses that comprised 100% of our operations, and are therefore included in management's assessment of internal control over financial reporting.

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, specific material weaknesses include the fact that we have limited segregation of duties and have experienced difficulty in applying complex accounting principles including those related to stock based compensation, stockholders equity accounting, income taxes and business combinations.. Since September 30, 2008, we have taken certain steps in an effort to correct these material weaknesses which 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 have enabled us to improve our internal controls, additional time is still required to fully document our systems, implement control procedures and test their operating effectiveness before we can definitively conclude that we have remediated our more significant deficiencies.

We have migrated our accounting systems 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 control 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 such as income tax accounting, stock holders equity and business combinations. 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. Finally, we have implemented disclosure controls and an internal control framework including software assisted compliance controls as of the date of this Annual Report on Form 10-K.

This annual report on Form 10-K does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permits us to provide only management's report in this annual report.

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.

Item 9B. *Other Information*

None.

Item 10. Directors, Executive Officers, and Corporate Governance
Directors of Beacon Enterprise Solutions Group, Inc.

Information concerning each of our directors and executive officers as of September 30, 2009, is as follows:

<u>Name</u>	<u>Age</u>	<u>Title</u>
Bruce Widener	48	Director, Chairman, Chief Executive Officer
J. Sherman Henderson III	66	Director
John D. Rhodes III	55	Director
Richard C. Mills	53	President
Robert Mohr	43	Chief Accounting Officer, Secretary, Treasurer
Gerald Bowman	51	Senior Vice President of Global Services

Bruce Widener, Director, Chairman and Chief Executive Officer. Mr. Widener possesses over 19 years of industry experience. Prior to developing and forming Beacon, Mr. Widener served as Chief Operating Officer of US Wireless Online, a provider of wireless internet access and related applications during 2006. From 2004 to 2006 Mr. Widener served as Senior Vice President of Corporate Development of UniDial Communications / Lightyear Network Solutions. Mr. Widener was an independent contractor with PTEK in 2002 and became Senior Vice President of Indirect Channel Sales in 2003 through 2004.

J. Sherman "Sherm" Henderson III, Director. Mr. Henderson has more than 35 years of business experience, including company ownership, sales, marketing and management. He has served as president and CEO of Lightyear Network Solutions, LLC since its inception in 2003. Lightyear Network Solutions, LLC is the successor to Lightyear Communications, Inc. following its reorganization in April 2004 under Chapter 11 of the U.S. Bankruptcy Code. Mr. Henderson served as President and CEO of Lightyear Communications, Inc. since its formation in 1993. In 2004, he was voted chairman of COMPTTEL, the leading communications trade association, made up of more than 300 member companies. Mr. Henderson is a graduate of Florida State University, with a B.A. degree in Business Administration.

John D. Rhodes, III, M.D., Director. Dr. Rhodes practiced as a physician and has been Board Certified in Internal Medicine and Cardiovascular Diseases serving as Chief Fellow in Cardiology at the University of Louisville School of Medicine from 1984- 1985 and was elected a Fellow of the American College of Cardiology. Dr. Rhodes retired from his private practice in 2005. In his retirement, Dr. Rhodes has been an active investor in the telecom, restaurant and real estate industries. Dr. Rhodes was a founding investor in Texas Roadhouse and served as a member of its advisory board until its initial public offering in 2004.

Richard C. Mills, President. Mr. Mills possesses over 26 years of industry experience. Prior to joining Beacon, he joined publicly traded Pomeroy Computer Resources, Inc. in 1993 and served as Chief Operating Officer and a member of the Board of Directors from 1995 until 1999. Mr. Mills previously served as CEO of Cyberswap, Inc. where he grew sales from \$2 million per month to over \$10 million per month in less than one year. He was a founder of Strategic Communications LLC.

Robert R. Mohr, CPA, Chief Accounting Officer. Prior to joining Beacon, Mr. Mohr served as Director of Financial Reporting of Triple Crown Media, Inc. (NASDAQ: TCMI), a \$130 million sports marketing, association management and newspaper concern, where he was in charge of SEC compliance, financial reporting and analysis from 2005 to 2007. From 2002 to 2005 Mr. Mohr was Chief Financial Officer of Culinary Standards Corp. Over the past 18 years Mr. Mohr has served in senior financial roles in both public and private companies in varying stages of development including start-ups, mergers and acquisitions, restructurings, leveraged buy-outs and turnarounds. Pursuant to financial roles, Mr. Mohr has also served as the leader of human resources, information technology, distribution and customer service.

Gerald Bowman, Senior Vice President of Global Services. On November 18, 2009, the Company appointed Gerald Bowman to the officer position of Senior Vice President of Global Services. Mr. Bowman brings over 20 years of experience in the IT industry serving in roles which included: Managing Director/Vice President of Enterprise Global Services for CommScope, a \$4 billion manufacturer of connectivity solutions

for communications networks; Chief Operating Officer for Superior Systems Technologies; Vice President of Engineering at Riser Management Systems, and Vice President and General Manager at VARtek.

Audit Committee

Our board of directors has an Audit Committee, the purpose of which is to review and evaluate the results and scope of the audit and other services provided by our independent registered public accounting firm, as well as our accounting principles and system of internal accounting controls, and to review and approve any transactions between us and our directors, officers or significant shareholders. In fulfilling its responsibility, the Audit Committee pre-approves, subject to stockholder ratification, the selection of our independent registered public accounting firm. The Audit Committee also reviews our consolidated financial statements and the adequacy of our internal controls. The Audit Committee meets at least quarterly with our management and our independent registered public accounting firm to review and discuss the results of audits or reviews of our consolidated financial statements, the evaluation of our internal audit controls, and the overall quality of our financial reporting and our critical accounting policies. The Audit Committee meets separately, at least quarterly, with the independent registered public accounting firm. In addition, the Audit Committee oversees our existing procedures for the receipt, retention and handling of complaints related to auditing, accounting and internal control issues, including the confidential, anonymous submission by employees of concerns on questionable accounting and auditing matters. The board of directors has determined the Audit Committee to be comprised of John D. Rhodes III and J. Sherman Henderson III. As of the date of filing, J. Sherman Henderson III is independent in accordance with Nasdaq Marketplace Rules and regulations established by the Securities and Exchange Commission, or SEC Regulations, governing audit committee member independence.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the directors, executive officers, and persons who own more than 10 percent of a registered class of a company's equity securities to file with the SEC initial reports of ownership (Form 3) and reports of changes in ownership (Forms 4 and 5) of such class of equity securities. Such officers, directors, and greater than 10 percent shareholders of a company are required by SEC Regulations to furnish us with copies of all such Section 16(a) reports that they file.

To our knowledge, with the exception of the following, based solely on our review of the copies of such reports furnished to us during the year ended September 30, 2009, all Section 16(a) filing requirements applicable to our executive officers, directors and greater than 10 percent beneficial owners were met. Due to miscommunication, although all disclosures were appropriately reflected within Current Reports on Form 8-K and Quarterly Reports on Form 10-Q, submission of several Forms 4 for Robert H. Clarkson, J. Sherman Henderson III and John D. Rhodes III, were filed on December 30, 2008. Disclosure controls have been implemented to mitigate this error in miscommunication.

Code of Ethics

Pursuant to Section 406 of the Sarbanes-Oxley Act of 2002, we have adopted a Code of Ethics for all employees including the Chief Executive Officer and Principal Financial Officer. The Code of Ethics is posted on our website, www.askbeacon.com, (under the caption Investor Relations -> Management). We intend to satisfy the disclosure requirement regarding any amendment to, or waiver of, a provision of the Code of Ethics for the Chief Executive Officer and Principal Financial Officer by posting such information on our website. We undertake to provide to any person a copy of this Code of Ethics upon request to our Corporate Secretary at our principal executive's offices.

Item 11. *Executive Compensation***COMPENSATION DISCUSSION AND ANALYSIS**

In this section, we will give an overview and analysis of our compensation program and policies, the material compensation decisions we have made under those programs and policies, and the material factors that we considered in making those decisions. Later in this Part III under the heading “Additional Information Regarding Executive Compensation,” you will find tables containing specific information about the compensation earned by, and equity awards granted to, the following individuals, whom we refer to as our “named executive officers”:

- Bruce Widener, Chairman, Chief Executive Officer and Director
- Richard C. Mills, President
- Robert Mohr, Chief Financial Officer, Treasurer and Secretary

The discussion below is intended to help you understand the detailed information provided in those tables and put that information into context within our overall compensation program.

Overview of Compensation Philosophy

The goal of our compensation program for our named executive officers is the same as our goal for operating Beacon — to create long-term value for our stockholders. Toward this goal, we have designed and implemented our compensation programs for our named executive officers to reward them for sustained financial and operating performance and leadership excellence, to align their interests with those of our stockholders and to encourage them to remain with us for long and productive careers. Most of our compensation elements simultaneously fulfill one or more of our performance, alignment and retention objectives, as described below. These elements consist of salary, annual bonus and share-based incentive compensation. In deciding on the type and amount of compensation for each named executive, we focus on both current pay and the opportunity for future compensation. We combine the compensation elements for each named executive in a manner we believe optimizes the executive’s contribution to us.

Overview of Compensation Objectives***Performance.***

The amount of compensation for each named executive officer reflects his superior management experience, continued high performance and exceptional career of service to us. Key elements of compensation that depend upon the named executive officer’s performance include:

- Base salary, which provides fixed compensation based on competitive market practice and in accordance with the terms of the executive’s employment agreement.
- Bonus, which is discretionary and payable in cash or equity incentives based on an assessment of each executives’ performance against pre-determined quantitative and qualitative measures within the context of our overall performance.
- Equity incentive compensation in the form of stock options and/or restricted stock subject to vesting schedules that require continued service with us.
- Our matching contributions to our named executive officers who participate in our 401(k) plan.
- Other benefits.

Base salary and bonus are designed to reward annual achievements and be commensurate with the executive’s scope of responsibilities, demonstrated leadership abilities, and management experience and effectiveness. Share-based compensation is focused on motivating and challenging the executive to achieve superior, longer-term, sustained results.

Alignment.

We seek to align the interests of our named executive officers with those of our stockholders, and provide them with an opportunity to acquire a proprietary interest in us, by evaluating executive performance on the basis of key financial measurements, which we believe closely correlate to long-term stockholder value, including revenue, operating profit and cash flow from operating activities. Key elements of compensation that align the interests of the named executives with stockholders include equity incentive compensation, which links a significant portion of compensation to stockholder value because the total value of those awards corresponds to stock price appreciation that correlates strongly with meeting company performance goals.

Retention.

Due to extensive management experience, our senior executives are on occasion presented with other professional opportunities, including ones at potentially higher compensation levels. We attempt to retain our executives by using continued service as a determinant of total pay opportunity. Key elements of compensation that require continued service to receive any, or maximum, payout include the vesting terms in our equity-based compensation programs, including stock option and restricted stock awards.

Implementing Our Objectives

Determining Appropriate Pay Levels.

We compete with many other companies for experienced and talented executives. As such, market information regarding pay practices at peer companies (as provided in the public reports filed by such companies with the SEC) is reviewed and considered in assessing the reasonableness of compensation and ensuring that compensation levels remain competitive in the marketplace.

We rely upon our subjective judgment in making compensation decisions, after reviewing our performance and carefully evaluating an executive's performance during the year against established goals, leadership qualities, operational performance, business responsibilities, such individual's career with us, current compensation arrangements and long-term potential to enhance stockholder value. Specific factors affecting compensation decisions for our named executive officers include:

- Key financial measurements such as revenue, operating profit and cash flow from operating activities.
- Strategic objectives such as acquisitions, dispositions or joint ventures.
- Promoting commercial excellence by launching new or continuously improving services, and attracting and retaining customers.
- Achieving specific operational goals for us including improved productivity, simplification and risk management.
- Achieving excellence in their organizational structure and among their employees.

We generally do not adhere to rigid formulas or necessarily react to short-term changes in business performance in determining the amount and mix of compensation elements. Although we consider competitive market compensation paid by other companies, we do not attempt to maintain a certain target percentile within a peer group or otherwise rely on those data to determine executive compensation. We incorporate flexibility into our compensation programs and in the assessment process to respond to and adjust for the evolving business environment.

Allocation of Compensation

There is no pre-established policy or target for the allocation of compensation, other than the employment agreements as previously referenced. We strive to achieve an appropriate mix between equity incentive awards and cash payments in order to meet our objectives. Any apportionment goal is not applied rigidly and does not control our compensation decisions; we use it as another tool to assess an executive's total pay opportunities and whether we have provided the appropriate incentives to accomplish our compensation objectives. Our mix

of compensation elements is designed to reward recent results and motivate long-term performance through a combination of cash and equity incentive awards. We believe the most important indicator of whether our compensation objectives are being met is our ability to motivate our named executive officers to deliver superior performance and retain them on a cost-effective basis.

Timing of Compensation

As discussed elsewhere, compensation (including salary base adjustments, stock options and restrictive stock awards, incentive plan eligibility, incentive plan goal specifications and incentive plan payments, for our named executive officers) are typically reviewed annually.

Minimum Stock Ownership Requirements

We do not have any minimum stock ownership guidelines. All of our named executive officers, however, currently beneficially own either one, or a combination, of shares of common stock, shares of our restricted stock, or stock options to purchase our common stock.

Role of Compensation Committee.

The Compensation Committee of our Board has primary responsibility for assisting the Board in developing and evaluating potential candidates for executive positions, including the CEO, and for overseeing the development of executive succession plans. As part of this responsibility, the Compensation Committee oversees the design, development and implementation of the compensation program for the CEO and the other named executive officers. The Compensation Committee evaluates the performance of the CEO and determines CEO compensation in light of the goals and objectives of the compensation program.

Role of Executive Officers in Determining Compensation

The CEO and the Compensation Committee together assess the performance of the other named executives and determine their compensation, based on initial recommendations from the CEO. Our CEO assists the Compensation Committee in reaching compensation decisions with respect to the named executives other than the CEO. The other named executives do not play a role in their own compensation determination, other than discussing individual performance objectives with the CEO. Our CEO is not involved with any aspect of determining his own compensation. The Compensation Committee makes all compensation decisions for our CEO. Although our CEO assists the Compensation Committee in reaching compensation decisions with respect to the other named executive officers, the Compensation Committee has final discretionary authority to approve compensation of all named executive officers, including our CEO.

Role of Compensation Consultant.

The Compensation Committee did not use the services of a compensation consultant to establish the compensation program for named executive officers for fiscal year 2008 but did engage a consultant to assist in fiscal year 2009 compensation consideration. In the future, the Compensation Committee may engage or seek the advice of compensation consultants to provide insight on compensation trends along with general views on specific compensation programs.

Equity Grant Practices.

The exercise price of each stock option awarded to our named executive officers, as non-qualified stock options or under our long-term incentive plan, is equal to the closing price of our stock on the date of grant. The Compensation Committee has no pre-set schedule as to when, or if, such grants shall occur.

Annual Compensation Objectives

Base Salary.

Base salaries for our named executive officers depend on the scope of their responsibilities, their performance, and the period over which they have performed those responsibilities. Decisions regarding salary increases take into account the executive's current salary and the amounts paid to the executive's peers within and outside Beacon. Base salaries are reviewed periodically, but are not automatically increased if the Compensation Committee believes that other elements of compensation are more appropriate in light of our stated objectives. This strategy is consistent with our primary intent of offering compensation that is contingent on the achievement of performance objectives.

Beacon entered into employment agreements with three of its key executives with no specific expiration dates that provide for aggregate annual compensation of \$540,000 and up to \$1,020,000 of severance payments for termination without cause. We discuss the terms and conditions of these agreements elsewhere in this Part III under "Additional Information Regarding Executive Compensation — Employment Agreements."

Bonus.

Each September, the CEO reviews with the Compensation Committee our estimated full-year financial results against the financial, strategic and operational goals established for the year, and our financial performance in prior periods. Based on that review, the Compensation Committee determines on a preliminary basis whether each named executive officer has achieved the objectives upon which the bonus is evaluated. After reviewing the final full-year results, the Compensation Committee approves total bonuses to be awarded. Bonuses will be approved subject to the results of our year-end financial audit and paid shortly thereafter.

The Compensation Committee, with input from the CEO with respect to the other named executive officers, uses discretion in determining the current year's bonus for each named executive officer. It evaluates our overall performance, the performance of the business unit or function that the named executive officer leads and an assessment of each executive officer's performance against expectations, which is reviewed at the end of the year. The bonuses also reflect (and are proportionate to) the consistently increasing and sustained annual financial results of Beacon. We believe that the annual bonus rewards the executives who drive these results and incentivizes them to sustain this performance.

Whether or not a bonus is in fact earned by an executive is based on both an objective analysis (predetermined operating profit targets based on budgeted operating revenues) and a subjective analysis (based on the individual's contribution to us or the business unit). The financial objective for each named executive officer for fiscal year 2008 and 2009 are discussed below. In making the subjective determinations, the Compensation Committee does not base its determination on any single performance factor nor does it assign relative weights to factors, but considers a mix of factors, including evaluations of superiors, and evaluates an individual's performance against such mix in absolute terms in relation to our other executives.

The salaries paid and the annual bonuses awarded to the named executive officers for fiscal years 2008 and 2009 are discussed below and disclosed in the Summary Compensation Table.

Equity Awards

Our equity incentive compensation program is designed to recognize scope of responsibilities, reward demonstrated performance and leadership, motivate future superior performance, align the interests of the executive with our stockholders and retain the executives through the vesting period established for the awards. All of our officers and key employees (including our named executive officers) and our directors are eligible for grants of stock options and other stock-based awards (including restricted stock). We consider the grant size and the appropriate combination of stock options, common stock and restricted stock when making award decisions. Equity incentive compensation granted for fiscal 2008 and 2009 is discussed below and disclosed in the Summary Compensation Table. Existing ownership levels are not a factor in award determination, as we do not want to discourage executives from holding our stock.

We have expensed stock option grants. When determining the appropriate combination of stock options and restricted stock, our goal is to weigh the cost of these grants with their potential benefits as a compensation tool. We believe that providing combined grants of stock options and restricted stock effectively balances our objective of focusing the named executive officers on delivering long-term value to our stockholders, with our objective of providing value to the executives with the equity awards. Stock options only have value to the extent the price of our stock on the date of exercise exceeds the exercise price on the grant date, and thus are an effective compensation element only if the stock price grows over the term of the award. In this sense, stock options are a motivational tool. Unlike stock options, restricted stock offers executives the opportunity to receive shares of our stock on the date the restricted stock vests. In this regard, restricted stock serves both to reward and retain executives, as the value of the restricted stock is linked to the price of our stock on the date the restricted stock vests.

401(k) Plan

We have a 401(k) Savings Plan qualified under Section 401(k) of the Internal Revenue Code, as amended, which is available to all our employees on date of hire. Employees may contribute their salary up to the statutory to the plan through voluntary salary deferred payments. We matched 100% of the first 1% and 50% of the next 5% of each employee's contribution up to 6% of the employee's salary until November 9, 2008 at which time the Board of Directors voted to revise the matching contribution to a performance based, profit sharing match.

Eligible named executive officers participated in the 401(k) Plan in fiscal year 2008 and 2009 and received matching contribution from us under the 401(k) Plan for the year ended September 30, 2008 and 2009 as follows:

Named Executive Officer	Matching Contributions for the Twelve Months Ended September 30, 2008	Matching Contributions for the Twelve Months Ended September 30, 2009
Bruce Widener	\$ 4,274	\$ 773
Richard C. Mills	\$ 3,433	\$ 577
Kenneth Kerr	\$ 3,433	\$ —
Robert Mohr	\$ 3,607	\$ 606

Other Compensation.

We provide our named executive officers with medical, dental and vision insurance coverage that are consistent with those provided to our other employees. In addition, we provide certain perquisites, which are described in the Summary Compensation Table, to our named executive officers, as a component of their total compensation.

Compensation for Named Executive Officers in Fiscal 2008 and 2009 Strength of company performance. The specific compensation decisions made for each of the named executive officers for the years ended September 30, 2008 and 2009 reflect our performance against key financial and operational measurements. A more detailed analysis of our financial and operational performance is contained in the Management's Discussion & Analysis contained elsewhere in this Annual Report on Form 10-K. Revenue and earnings before interest, taxes, depreciation and amortization (EBITDA) for the years ended September 30, 2008 and 2009 fell below expectations. However, we achieved several of our key priorities in combining and integrating the four acquisitions and transitioning to a publicly traded company during Fiscal 2008 and obtaining significant increases in business as we launched our Infrastructure Management Services and launching international operations in Fiscal 2009.

CEO Compensation. In determining Mr. Widener's compensation for the years ended September 30, 2008 and 2009, the Compensation Committee considered his performance against financial, strategic and operational goals for this year as follows:

Financial Objectives

Revenue and EBITDA fell short of our projections for the years ended September 30, 2008 and 2009.

Strategic and Operational Goals

Execute Phase I Acquisitions	Mr. Widener successfully executed the Phase I Acquisition plan and reverse merger to create Beacon as a public company.
Integrate Phase I Acquisitions	We successfully integrated the four companies into a single business providing the comprehensive services contemplated under the original plan.
Retain Excellent Team	Mr. Widener continued to attract and retain a strong management expertise at all levels of the organization.
Launched Foreign Operations	Mr. Widener successfully launched foreign operations through the acquisition of Symbiotec Solution AG.

Mr. Widener's salary for the years ended September 30, 2008 and 2009 were \$190,378 and \$235,342 which included retro pay for the successful conclusion of the Phase I Acquisitions and unpaid retro-pay of \$32,308 related to an increase received during the year, respectively.

Other Named Executive Officers' Compensation. In determining the compensation of Messrs. Mills and Mohr for the years ended September 30, 2008 and 2009, the Compensation Committee compared their achievements against the performance objectives established for each of them at the beginning of the year and discussed with each individual at the beginning of the year by the CEO. The Compensation Committee evaluated our overall performance and the contributions of each of the other named executive officers to that performance, as well as the performance of the departments that each individual leads when relevant. Each of the other named executive officers has an employment agreement which defines their base salaries. Mr. Mohr earned a bonus during the year ended September 30, 2008 for timely delivery of reports to the Securities and Exchange Commission. Based on our shortfall from our planned revenue and EBITDA, the base salaries remained the same as in Fiscal 2008 for Fiscal 2009 but were evaluated based on achieving specific goals for the fiscal year 2009.

COMPENSATION COMMITTEE REPORT

The Compensation Committee of the Board of Directors has reviewed and discussed with management the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K. Based on the review and discussion referred to above, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Annual Report on Form 10-K.

The Compensation Committee

J. Sherman Henderson III
John D. Rhodes III

ADDITIONAL INFORMATION REGARDING EXECUTIVE COMPENSATION

The following table sets forth a summary of the compensation of our named executive officers for the year ended September 30, 2009.

Summary Compensation Table

Name and Principal Position (A)	Year (B)	Salary (\$) (C)	Bonus (\$) (D)	Stock Awards (\$) (E)	Option Awards (\$) (F)	Non-Equity Incentive Plan Compensation (\$) (G)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$) (H)	All Other Compensation (\$) (I)	Total (\$) (J)
Bruce Widener Chairman, Chief Executive	2009	203,035(4)			104,795(5)			12,893(6)	215,928
	2008	190,378(7)						11,912(8)	307,085
Richard C. Mills President	2009	156,086(9)		90,202(10)	104,795(11)			12,696(12)	363,779
	2008	110,494(13)		266,694(14)				10,578(15)	387,766
Kenneth Kerr Chief Operating Officer	2009	150,000(16)						112,120(17)	262,119
	2008	109,615(18)						10,306(19)	119,921
Robert Mohr Chief Accounting Officer, Treasurer and Secretary	2009	150,000(20)			63,699(21)			4,382(22)	218,081
	2008	126,923(23)	5,000(24)		7,358(25)			2,743(26)	142,024
Gerald Bowman Senior Vice President of Global Services	2009	5,769(27)							5,769

- (1) For purposes of this Summary Compensation Table, the cash incentive awards to the named executive officers, which are discussed in further detail under the heading "Compensation Discussion and Analysis — Compensation for Named Executive Officers for Fiscal Year 2009," have been characterized as "Non-Equity Incentive Plan Compensation" under column (G).
- (2) The amounts in Column (E) represent the proportionate amount of the total fair value of restricted stock recognized by us as an expense in fiscal years 2008 and 2009 for financial accounting purposes, disregarding for this purpose the estimate of forfeitures related to service-based vesting conditions. The fair values of these awards and the amounts expensed in fiscal year 2009 were determined in accordance with ASC 718. The awards for which expense is shown in column (E) include awards described in the Grants of Plan-Based Awards table included elsewhere in this section. The assumptions used in determining the grant date fair values of these awards are set forth in Note 16 to our consolidated financial statements included elsewhere in this annual report on Form 10-K.
- (3) The amounts in column (F) represent the proportionate amount of the total fair value of stock options recognized by us as an expense in fiscal years 2008 and 2009 for financial accounting purposes, disregarding for this purpose the estimate of forfeitures related to service-based vesting conditions. The fair value of these awards and the amounts expensed in fiscal years 2008 and 2009 were determined in accordance with ASC 718. The awards for which expense is shown in column (F) include the awards described in the Grants of Plan-Based Awards table included elsewhere in this section. The assumptions used in determining the grant date fair values of these awards are set forth in Note 16 to our consolidated financial statements included elsewhere in this annual report on Form 10-K.
- (4) Amount includes \$240,000 annual salary under the terms of Mr. Widener's employment agreement and amounts agreed upon with Founders prior to execution of the employment agreement.
- (5) Amount relates to unrestricted stock grant which is discussed in further detail in Note 16 to our consolidated financials statements included elsewhere in this annual report on Form 10-K.
- (6) Amount paid for 401k match, medical, dental and vision insurance.

- (7) Amount includes \$180,000 annual salary under the terms of Mr. Widener's employment agreement and amounts agreed upon with Founders prior to execution of the employment agreement.
- (8) Amount paid for medical, dental and vision insurance.
- (9) Amount includes \$150,000 annual salary under the terms of Mr. Mills' employment agreement and amounts agreed upon with Founders prior to execution of the employment agreement.
- (10) Amount relates to restricted stock grant which is discussed in further detail in Note 16 to our consolidated financial statements included elsewhere in this annual report on Form 10-K.
- (11) Amount relates to unrestricted stock grant which is discussed in further detail in Note 16 to our consolidated financials statements included elsewhere in this annual report on Form 10-K.
- (12) Amount paid for 401k, match, medical, dental and vision insurance.
- (13) Amount includes \$150,000 annual salary under the terms of Mr. Mills' employment agreement for partial year since execution of the employment agreement..
- (14) Amount relates to restricted stock grant which is discussed in further detail in Note 16 to our consolidated financial statements included elsewhere in this annual report on Form 10-K.
- (15) Amount paid for medical, dental and vision insurance.
- (16) Amount includes \$150,000 annual salary under the terms of Mr. Kerr's employment agreement and amounts agreed upon with Founders prior to execution of the employment agreement.
- (17) Amount paid for medical, dental and vision insurance.
- (18) Amount includes \$150,000 annual salary under the terms of Mr. Kerr's employment agreement for partial year since execution of the employment agreement.
- (19) Amount paid for medical, dental and vision insurance .
- (20) Amount includes \$150,000 annual salary under the terms of Mr. Mohr's employment agreement and amounts agreed upon with Founders prior to execution of the employment agreement.
- (21) Amount relates to unrestricted stock grant which is discussed in further detail in Note 16 to our consolidated financials statements included elsewhere in this annual report on Form 10-K.
- (22) Amount paid for 401k match, medical, dental and vision insurance
- (23) Amount includes \$150,000 annual salary under the terms of Mr. Mohr's employment agreement for partial year since execution of the employment agreement.
- (24) Amount represents a bonus for timely filing of documents with the Securities Exchange Commission.
- (25) Amount represents non-cash compensation expense recognized for financial accounting purposes determined in accordance with ASC 718.
- (26) Amount paid for medical, dental and vision insurance.

Amount includes \$150,000 annual salary under the terms of Mr. Bowman's employment agreement for partial year since execution of the employment agreement

Employment Agreements

Beacon has entered into employment agreement with each of Bruce Widener, Richard C. Mills and Robert Mohr, each effective as of May 8, 2009. Each executive officer has agreed not to compete with us within the United States during the term of his employment and for a period of one year following his termination of employment, nor to solicit our employees for a period of two years following the termination of his employment.

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.

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.

Grants of Awards

Grants of Awards											
Name (A)	Grant Date (B)	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units (#) (I)	All Other Option Awards: Number of Securities Under- lying Options (J) (D)	Exercise or Base Price of Option Awards (S/Sh) (K) (2)	Grant Date Fair Value of Stock and Option Awards (\$) (3) (L)
		Threshold (S) (C)	Target (S) (D)	Maximum (S) (E)	Threshold (#) (F)	Target (#) (G)	Maximum (#) (H)				
Bruce Widener	5/8/2009								1,000,000	\$ 1.19	750,000
Richard C. Mills	12/20/2007							782,250(4)			663,863
Richard C. Mills	5/8/2009								1,000,000	\$ 1.19	750,000
Robert Mohr	3/26/2008								60,000	\$ 1.20	43,200
Robert Mohr	1/9/2009								75,000	\$0.80	37,500
Robert Mohr	5/8/2009								250,000	\$ 1.19	187,500

On May 8, 2009, Mr. Widener was granted additional options to purchase 1,000,000 shares of our common stock with a strike price of \$1.19, the closing price on the date of the grant. The fair value of the options on the date of grant of this options grant under ASC 718 was \$750,000.

On December 20, 2007, Mr. Mills was granted 782,250 shares of Beacon restricted stock of which 150,000 shares vested immediately and 632,250 shares vest in equal amounts annually on each of December 21, 2008, 2009, and 2010. The full grant date fair value of this restricted stock award under ASC 718 is \$666,874. On May 8, 2009, Mr. Mills was granted additional options to purchase 1,000,000 shares of our common stock with a strike price of \$1.19, the closing price on the date of the grant. The fair value of the options on the date of grant of this options grant under ASC 718 was \$750,000.

On March 26, 2008, Mr. Mohr was granted options to purchase 60,000 shares of our common stock with a strike price of \$1.20, the closing price on the date of grant. The fair value of the options on the date of grant of this options grant under ASC 718 was \$43,320. . On January 1, and May 8, 2009, Mr. Mohr was granted

additional options to purchase 75,000 and 250,000 shares of our common stock respectively with a strike price of \$.80 and \$1.19, the closing price on the date of the grant. The fair value of the options on the dates of grant of these options grant under ASC 718 was \$37,500 and \$187,500.

There were no other equity or share-based awards granted during the years ended September 30, 2008 and 2009 to the named executive officers.

Outstanding Equity Awards at Fiscal Year-End

The following table details the equity incentive awards outstanding as of September 30, 2009. For additional information about the option awards, see “Equity Awards” and “Compensation for Named Executive Officers in Fiscal Year 2009” under “Compensation Discussion and Analysis.”

Outstanding Equity Awards at Fiscal Year-End

Name (A)	Option Awards					Stock Awards			
	Number of Securities Underlying Unexercised Options (#) Exercisable (B)	Number of Securities Underlying Unexercised Options (#) Unexercisable (C)	Equity Incentive Plan Awards: Number of Unearned Securities Underlying Unexercised Options (#) Unexercisable (D)	Option Exercise Price (E)	Option Expiration Date (F)	Number of Shares or Units of Stock That Have Not Vested (#) (G)	Market Value of Shares or Units of Stock That Have Not Vested (\$) (H)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#) (I)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$) (J)
Bruce Widener		1,000,000		\$1.19	5/8/2019		—		
Richard C. Mills						421,500	442,575		
Richard C. Mills		1,000,000		\$1.19	5/8/2019				
Robert Mohr	20,000	40,000		\$1.20	3/26/2018				
Robert Mohr	75,000			\$0.80	1/9/2019				
Robert Mohr		250,000		\$1.19	5/8/2019				

Options Exercises and Stock Vested

The following table provides information on stock awards vested for the year ended September 30, 2009. Pursuant to a grant of 782,250 shares of restricted stock to Mr. Mills, awarded on December 20, 2007, 150,000 shares vested on that date when the stock was valued at \$0.85 per share. Subsequent vesting occurs in equal amounts annually on each of December 21, 2008, 2009, and 2010, at December 21, 2008 when 210,750 shares vested the stock was valued at \$1.20 per share.

Option Exercises and Stock Vested

Name (A)	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#) (B)	Value Realized on Exercise (\$) (C)	Number of Shares Acquired on Vesting (#) (D)	Value Realized on Vesting (\$) (E)
Richard C. Mills			150,000	\$127,500
			210,750	\$252,900

Potential Payments Upon Termination or Change in Control

The following table summarizes the value of the termination payments and benefits Mr. Widener, Mills, and Mohr would receive if they had terminated employment on September 30, 2009 under the circumstances shown pursuant to the terms of the employment agreements we have entered into with each of them. For further description of the employment agreement governing these payments, see "Employment Agreements." Other than the employment agreements with our named executives, there is no formal policy with respect to payments to named executive officers upon a termination of such officer or change in control of the Company. In addition, the employment agreements with our named executives do not provide for any payments upon a change in control. The tables exclude (i) amounts accrued through September 30, 2009 that would be paid in the normal course of continued employment, such as accrued but unpaid salary and earned annual bonus for fiscal year 2009 and reimbursed business expenses and (ii) vested account balances under our 401(k) Plan that is generally available to all of our employees.

Bruce Widener

Benefit	Retirement (\$)	Death (\$)	Disability (\$)	Termination by Company without Cause or Executive with Good Reason (\$)	Termination Following or Prior to a Change in Control (\$)
Cash Severance	—	\$240,000(1)	\$240,000(1)	\$ 720,000(1)	—(2)
Acceleration of Restricted Stock	—	—	—	—	—(2)
Acceleration of Stock Options	—	—	—	—	—(2)
Health & Welfare Benefits	—(3)	—(3)	3,121(3)	3,121(3)	—(2)

- (1) Excluding accrued, but unpaid, base salary, annual bonus, accrued vacation, 401(k) payments and unreimbursed business expenses.
- (2) Executive is not entitled to any specific payments upon a change in control, other than such payment that Executive would otherwise be entitled to if termination upon a change in control is by reason of death or disability or by the Company without Cause or the Executive for Good Reason, as provided in the related columns.
- (3) Executive is entitled to continued participation in our group health plan, assuming he makes a timely election of continuation coverage under COBRA, at the Company's expense.

Richard Mills

Benefit	Retirement (\$)	Death (\$)	Disability (\$)	Termination by Company without Cause or Executive with Good Reason (\$)	Termination Following or Prior to a Change in Control (\$)
Cash Severance	—	\$37,500(1)	\$37,500(1)	\$ 150,000(1)	\$ —(2)
Acceleration of Restricted Stock	—	—	—	445,124(3)	\$ —(2)
Acceleration of Stock Options	—	—	—	—	\$ —(2)
Health & Welfare Benefits	—(4)	—(4)	3,001(4)	3,001(4)	\$ —(2)

- (1) Excluding accrued, but unpaid, base salary, annual bonus, accrued vacation, 401(k) payments and unreimbursed business expenses.
- (2) Executive is not entitled to any specific payments upon a change in control, other than such payment that Executive would otherwise be entitled to if termination upon a change in control is by reason of death or

disability or by the Company without Cause or the Executive for Good Reason, as provided in the related columns.

- (3) Upon termination by the Company for Cause or the Executive for Good Reason, restricted stock vests as described in Note 14 to the consolidated financial statements.
- (4) Executive is entitled to continued participation in our group health plan, assuming he makes a timely election of continuation coverage under COBRA, at the Company's expense.

Robert Mohr

Benefit	Retirement (\$)	Death (\$)	Disability (\$)	Termination by Company without Cause or Executive with Good Reason (\$)	Termination Following or Prior to a Change in Control (\$)
Cash Severance	—	\$37,500(1)	\$37,500(1)	\$ 150,000(1)	—(2)
Acceleration of Restricted Stock	—	—	—	—	—(2)
Acceleration of Stock Options	—	—	—	—	—(2)
Health & Welfare Benefits	—(3)	—(3)	977(3)	977(3)	—(2)

- (1) Excluding accrued, but unpaid, base salary, annual bonus, accrued vacation, 401(k) payments and unreimbursed business expenses.
- (2) Executive is not entitled to any specific payments upon a change in control, other than such payment that Executive would otherwise be entitled to if termination upon a change in control is by reason of death or disability or by the Company without Cause or the Executive for Good Reason, as provided in the related columns.
- (3) Executive is entitled to continued participation in our group health plan, assuming he makes a timely election of continuation coverage under COBRA, at the Company's expense.

Gerald Bowman

Benefit	Retirement (\$)	Death (\$)	Disability (\$)	Termination by Company without Cause or Executive with Good Reason (\$)	Termination Following or Prior to a Change in Control (\$)
Cash Severance	—	\$37,500(1)	\$37,500(1)	\$ 150,000(1)	—(2)
Acceleration of Restricted Stock	—	—	—	—	—(2)
Acceleration of Stock Options	—	—	—	—	—(2)
Health & Welfare Benefits	—(3)	—(3)	977(3)	977(3)	—(2)

- (1) Excluding accrued, but unpaid, base salary, annual bonus, accrued vacation, 401(k) payments and unreimbursed business expenses.
- (2) Executive is not entitled to any specific payments upon a change in control, other than such payment that Executive would otherwise be entitled to if termination upon a change in control is by reason of death or disability or by the Company without Cause or the Executive for Good Reason, as provided in the related columns.
- (3) Executive is entitled to continued participation in our group health plan, assuming he makes a timely election of continuation coverage under COBRA, at the Company's expense.

DIRECTOR COMPENSATION

Compensation for Non-Management Directors. Our directors have agreed to serve on our board of directors based on their existing equity position in Beacon. John D. Rhodes III was issued 300,000 Warrants to purchase Beacon common stock in exchange for his service on the board by unanimous vote in a Board Meeting on March 26, 2008. On January 9, 2009, the Compensation Committee resolved to pay directors \$500 per meetings via telephone and \$2,500 per meeting in person but the directors unanimously agreed to waive this compensation until such time as the company achieved positive net income.

The following table provides summary information of compensation of directors for the year ended September 30, 2009.

Director Compensation							
Name and Principal Position	Fees Earned or Paid in Cash	Stock Awards (S)	Options Awards (S)	Non- Equity Incentive Plan Compensation (S)	Change in Pension Value and Non- Qualified Deferred Compensation Earnings (S)	All Other Compensation (S)	Total (S)
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)

Item 12. Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information regarding the ownership of our common stock as of November 30, 2009 by (i) any person who is known to us to be the beneficial owner of more than five percent of our common stock, (ii) all directors, (iii) all executive officers named in the Summary Compensation Table herein and (iv) all directors and executive officers as a group. Warrants and options to acquire our common stock included in the amounts listed below are currently exercisable or will be exercisable within 60 days after November 30, 2009, and are deemed outstanding for computing the ownership percentage of the stockholder holding such warrants and/or options, but are not deemed outstanding for computing the ownership percentage of any other stockholder.

Name	Beneficial Ownership	% of Class
Bruce Widener	2,580,000	5.8%
J. Sherman Henderson III(1)	1,150,000	2.6%
John D. Rhodes III(2)	2,965,766	4.2%
Richard C. Mills(3)	1,577,250	3.6%
Robert R. Mohr	95,000	0.0%
Directors and Named Executives Officers (as a group)	8,368,016	16.2%

As a shareholder with a greater than 5% ownership of the company, Mr. Widener's address is 1311 Herr Lane, Louisville KY.

- (1) Includes 30,000 shares held by LANJK, LLC (a limited liability company wholly owned by Mr. Henderson).
- (2) Includes the 166,666 shares into which the Exchange Bridge Note held by Dr. Rhodes is convertible, 173,000 shares for which the Exchanged Bridge Warrants held by Dr. Rhodes are exercisable within 60 days of the date hereof, 300,000 warrants to purchase shares in exchange for his representation on the Board of Directors, 805,271 shares into which the Series B Preferred Stock is convertible, 350,000 Warrants issued pursuant to the Series B Preferred Stock purchase, 783,328 warrants issued in exchange for an equity financing arrangement, and warrants to purchase 87,500 shares of common stock pursuant to a debt financing arrangement.

- (3) 632,250 of the shares of Beacon Common Stock are subject to a three-year vesting provision, where such shares vest in three equal installments on December 20, 2008, 2009 and 2010. In addition, Mr. Mills and his wife are the beneficial owners of 795,000 shares of Beacon Common Stock.

Item 13. *Certain Relationships and Related Transactions, and Director Independence*

On July 16, 2007, Beacon entered into a \$500,000 Bridge Financing Facility provided by two of our founding stockholders who are also directors of our Company. See Note 10 for further details.

On November 15, 2007, we issued \$200,000 of convertible notes payable (the "Bridge Notes") in a separate debt financing. Of this amount, \$100,000 of the Bridge Notes was issued to one of the directors of Beacon. See Note 10 for further details.

Beacon has obtained insurance through an agency owned by one of our founding stockholders/directors. Insurance expense paid through the agency for the year ended September 30, 2008 and 2009 was \$114,378 and \$190,000 and is included in selling, general and administrative expense in the accompanying consolidated statement of operations.

On December 28, 2007, we entered into an equity financing arrangement with two of our directors that provided up to \$300,000 of additional funding, the terms of which provided for compensation of 10,000 warrants to purchase common stock at \$1.00 per share per month, to each individual for the period the financing arrangement was in effect. The warrants have a five-year term. The financing arrangement was terminated upon the close of the Series A-1 Placement. Accordingly, we recognized \$58,700 of interest expense for the years ended September 30, 2008 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
1/28/2008	20,000	1,825	\$1.00	\$ 1.90	66.34%	0%	2.80%	\$ 1.34	\$ 26,800
2/28/2008	20,000	1,825	\$1.00	\$ 1.50	66.34%	0%	2.73%	\$ 0.99	\$ 19,800
3/7/2008	10,000	1,825	\$1.00	\$ 1.75	66.34%	0%	2.45%	\$ 1.21	\$ 12,100

On May 15, 2008, we entered into an equity financing arrangement with one of our directors that provided up to \$500,000 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 financing arrangement terminates upon the close of a \$3,000,000 equity financing event. On August 19, 2008, we modified the agreement to increase the commitment to \$3,000,000 of additional funding that decreases on a dollar for dollar basis as we raise capital in subsequent equity financing transactions up to \$3,000,000, upon mutual agreement of our director and us, or on December 31, 2008. As of September 30, 2008, \$1,700,000 remained available under this equity arrangement. In consideration for this financing arrangement, we agreed to issue a five year warrant to purchase 100,000 shares of common stock at an exercise price of \$1.00 per share in addition to the ongoing warrants earned under the original agreement. In addition, contingent upon the exercise of any part of the equity financing commitment, two of our founding stockholders would earn the right to purchase up to 1,655,425 shares of their stock owned by the investors for a purchase price of \$0.01 per share. Accordingly, we recognized \$176,999 and \$288,945 of interest expense for the years ended September 30, 2008 and 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
6/15/2008	33,333	1,825	\$ 1.00	\$ 1.01	66.34%	0%	3.73%	\$ 0.58	\$ 19,333
7/15/2008	33,333	1,825	\$ 1.00	\$ 1.25	66.34%	0%	3.12%	\$ 0.78	\$ 26,000
8/15/2008	33,333	1,825	\$ 1.00	\$ 1.50	66.34%	0%	3.41%	\$ 1.00	\$ 33,333
8/19/2008	100,000	1,825	\$ 1.00	\$ 1.25	66.34%	0%	3.07%	\$ 0.78	\$ 78,000
9/15/2008	33,333	1,825	\$ 1.00	\$ 1.05	66.34%	0%	2.59%	\$ 3.61	\$ 20,333
For year ended September 30, 2008									\$ 176,999
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
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
4/9/2009	33,333	1,825	\$ 1.00	\$ 0.75	66.34%	0%	1.90%	\$ 0.37	\$ 12,333
5/9/2009	33,333	1,825	\$ 1.00	\$ 1.19	66.34%	0%	2.09%	\$ 0.72	\$ 23,970
6/9/2009	33,333	1,825	\$ 1.00	\$ 1.35	66.34%	0%	2.73%	\$ 0.86	\$ 28,666
7/9/2009	33,333	1,825	\$ 1.00	\$ 1.61	66.34%	0%	2.31%	\$ 1.08	\$ 35,983
8/9/2009	33,333	1,825	\$ 1.00	\$ 1.20	66.34%	0%	2.75%	\$ 0.74	\$ 24,533
9/9/2009	33,333	1,825	\$ 1.00	\$ 1.00	66.34%	0%	2.38%	\$ 0.57	\$ 18,960
For year ended September 30, 2009									\$ 288,945

The equity financing arrangement expired on December 16, 2009 upon closing of a \$3,000,000 of equity financing at which time the directors contingent right to acquire the shares of the founding shareholders was terminated.

On July 14, 2008, we issued 400 shares of Series B Preferred Stock and 200,000 ("Series B Offering Warrants") five year common stock purchase warrants exercisable at \$1.20 per share in a Private Placement transaction for proceeds of \$400,000 from one of our directors. 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 B Preferred Stock is 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.

On August 20, 2008, we entered into a \$100,000 debt financing arrangement with one of our directors under which we borrowed \$100,000 at a 12.00% annual interest rate the principal of which is not due on any specific date. We also paid a 1.00% origination fee upon initiation of the credit facility. The proceeds of the credit facility were used as short term working capital collateralized by our accounts receivable. We have accrued \$2,400 of interest expense related to this credit facility during the year ended September 30, 2008 which is included in accrued expenses and other current liabilities in the consolidated financial statements

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, 2009. We are 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 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 August 10, 2009, we renewed the existing equity financing arrangement to provide a commitment of up to \$3.0 million of additional funding. 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 stockholders at a purchase price of \$0.001 per share. The financing available under this arrangement 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 Terminated on December 15, 2009 upon close of \$3,000,000 financing event.

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 \$230,000 and \$1.7 million for procurement and installation services provided under this marketing agreement, of which \$195,000 and \$465,000 is recorded as accounts receivable in the accompanying balance sheet for the years ended September 30, 2008 and 2009.

On August 7, 2009, we entered into a non-interest bearing demand note with one of our directors in the amount of \$500,000. See Note 10 for further information.

Item 14. Principal Accountant Fees and Services

Marcum LLP audited our consolidated financial statements for the years ended September 30, 2008 and 2009.

Fees

The following table presents fees for professional services rendered by Marcum LLP for the audit of our annual financial statements for the years ended September 30, 2008 and 2009:

	For the Year Ended September 30, 2008	For the Year Ended September 30, 2009
Audit fees	\$ 146,700	\$ 203,085
Audit related fees	—	—
Tax fees	—	—
Other fees	—	—
	<u>\$ 146,700</u>	<u>\$ 203,085</u>

In accordance with its written charter, the Audit Committee reviews and discusses with Marcum LLP, on a periodic basis, any disclosed relationships or services that may impact the objectivity and independence of the independent registered accounting firm and pre-approves all audit and permitted non-audit services (including the fees and terms thereof) to be performed for us by our independent registered public accounting firm.

Item 15. Exhibits, Financial Statement Schedules

- 3.1 Amended and Restated Articles of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K dated January 13, 2009).
- 3.2 Certificate of Designation of the Series B Preferred Stock (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q dated August 19, 2008).

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3.3	Restated Bylaws (Incorporated by reference to Exhibit 3.2 to Form 10-KSB dated October 16, 2003).
4.1	Form of warrant to purchase common stock granted in connection with August 19, 2008 financing arrangement between the Company and one of its directors (incorporated by reference to Exhibit 4.1 to the Company's Annual Report on Form 10-K dated January 13, 2009).
4.2	Registration Rights Agreement dated November 12, 2008 by and between the Company and the placement agent for the November 2008 offering of Common Stock (incorporated by reference to Exhibit 4.2 to the Company's Annual Report on Form 10-K dated January 13, 2009).
4.3	Form of warrant to purchase common stock granted in connection with November 2008 offering of Common Stock (incorporated by reference to Exhibit 4.3 to the Company's Annual Report on Form 10-K dated January 13, 2009).
4.4	Form of convertible promissory notes and warrants granted in connection with the 2007 convertible debt financing (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated December 28, 2007).
4.5	Form of warrant to purchase common stock granted in connection with the offering of Series A and Series A-1 Preferred Stock, as amended and recirculated July 30, 2008 (incorporated by reference to Exhibit 4.5 to the Company's Annual Report on Form 10-K dated January 13, 2009).
4.6	Form of warrant to purchase common stock granted to the placement agent retained in connection with the offering of Series A and Series A-1 Preferred Stock (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K dated December 28, 2007).
4.7	Form of warrant to purchase common stock granted to affiliates of placement agent retained in connection with the offering of Series A and Series A-1 Preferred Stock (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K dated December 28, 2007).
4.8	Form of warrant to purchase common stock granted in connection with the offering of Series B Preferred Stock (incorporated by reference to Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q dated August 19, 2008).
4.9	Form of warrant to purchase common stock granted in connection with the July 2008 offering of Common Stock (incorporated by reference to Exhibit 4.2 to the Company's Quarterly Report on Form 10-Q dated August 19, 2008).
4.10	Form of warrant to purchase common stock issued to J. Sherman Henderson and Robert A. Clarkson on July 10, 2008 (incorporated by reference to Exhibit 4.3 to the Company's Quarterly Report on Form 10-Q dated August 19, 2008).
4.11	Form of the Convertible Promissory Notes, dated January 22, 2009, made and issued by the Company to various investors, in the aggregate principal amount of \$500,000 (incorporated by reference to Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q dated February 23, 2009).
4.12	Form of the Warrants, dated January 22, 2009, made and issued by the Company to various investors (incorporated by reference to Exhibit 4.2 to the Company's Quarterly Report on Form 10-Q dated February 23, 2009).
4.13	Form of warrant to purchase common stock granted to the investors in connection with the June 2009 offering of Common Stock (incorporated by reference to Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q dated August 12, 2009).
4.14*	Form of warrant to purchase common stock granted to the investors in connection with the September 2009 Private Placement.
10.1	Placement Agency Agreement dated July 25, 2008 by and between the Company and the Placement Agent (incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K dated January 13, 2009).
10.2	Letter Agreement dated July 25, 2008 by and between the Company and the Placement Agent (incorporated by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-K dated January 13, 2009).
10.3	Letter agreement dated August 19, 2008 by and between the Company and one of its directors (incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K dated January 13, 2009).

10.4	Loan Agreement dated September 4, 2008 by and between the Company and First Savings Bank (incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K dated January 13, 2009).
10.5	Letter Agreement dated January 9, 2009, by and between the Company and John Rhodes, relating to an equity financing agreement (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q dated February 23, 2009).
10.6	Form of the Note Purchase Agreement, dated January 22, 2009, by and between the Company and various investors (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q dated February 23, 2009).
10.7	Work Order dated December 19, 2008, by and between the Company and Johnson & Johnson Services, Inc. (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q dated February 23, 2009).
10.8	Promissory Note, dated January 7, 2009, made and issued by the Company to John Rhodes (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q dated February 23, 2009).
10.9	Beacon Solutions 2008 Long Term Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q dated May 13, 2009.)
10.10	Letter Agreement dated August 10, 2009 by and between the Company and John Rhodes (incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q dated August 12, 2009).
10.11	Promissory Note dated August 10, 2009 made and issued by the Company to John Rhodes Family Limited Partnership (incorporated by reference to Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q dated August 12, 2009).
10.12	Selling Agency Agreement dated June 12, 2009 by and between the Company and the selling agent named therein (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q dated August 12, 2009)
10.13	Secured Promissory Note, dated December 20, 2007, issued by Beacon to ADSnetcurve (incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K dated December 28, 2007).
10.14	Asset Purchase Agreement, dated October 15, 2007, by and between Beacon and CETCON, Incorporated ("CETCON")(incorporated by reference to Exhibit 10.7 to the Company's Current Report on Form 8-K dated December 28, 2007).
10.15	Secured Promissory Note, dated December 20, 2007, issued by Beacon to CETCON (incorporated by reference to Exhibit 10.8 to the Company's Current Report on Form 8-K dated December 28, 2007).
10.16	Asset Purchase Agreement, dated October 15, 2007, by and between Beacon and Strategic Communications, LLC (incorporated by reference to Exhibit 10.9 to the Company's Current Report on Form 8-K dated December 28, 2007).
10.17	Promissory Note, dated December 20, 2007, issued by Beacon to Strategic (incorporated by reference to Exhibit 10.10 to the Company's Current Report on Form 8-K dated December 28, 2007).
10.18	Asset Purchase Agreement, dated October 15, 2007, by and between Beacon and RFK Communications, LLC ("RFK") (incorporated by reference to Exhibit 10.11 to the Company's Current Report on Form 8-K dated December 28, 2007).
10.19	Secured Promissory Note, dated December 20, 2007, issued by Beacon to RFK (incorporated by reference to Exhibit 10.12 to the Company's Current Report on Form 8-K dated December 28, 2007).
10.20	Agreement and Plan of Merger, dated October 15, 2007, by and among Beacon, BH Acquisition Sub, Inc., Bell Haun Systems, Inc. ("BHS") and BHS shareholders (incorporated by reference to Exhibit 10.13 to the Company's Current Report on Form 8-K dated December 28, 2007).
10.21	Promissory Note, dated December 20, 2007, issued by Beacon to the BHS shareholders (incorporated by reference to Exhibit 10.14 to the Company's Current Report on Form 8-K dated December 28, 2007).

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10.22	Promissory Notes, dated December 20, 2007, issued by Beacon to Thomas O. Bell and Michael T. Haun (incorporated by reference to Exhibit 10.15 to the Company's Current Report on Form 8-K dated December 28, 2007).
10.23	Registration Rights Agreement, dated December 20, 2007, between Beacon, the placement agent for the Preferred Stock offerings and certain investors (incorporated by reference to Exhibit 10.16 to the Company's Current Report on Form 8-K dated December 28, 2007).
10.24**	Employment Agreement, dated December 2007, between the Company and Bruce Widener (incorporated by reference to Exhibit 99.8 to the Company's Quarterly Report on Form 10-Q dated February 19, 2008).
10.25**	Employment Agreement, dated December 2007, between the Company and Richard C. Mills (incorporated by reference to Exhibit 99.6 to the Company's Quarterly Report on Form 10-Q dated February 19, 2008).
10.26**	Employment Agreement, dated December 2007, between the Company and Robert R. Mohr (incorporated by reference to Exhibit 99.5 to the Company's Quarterly Report on Form 10-Q dated February 19, 2008).
10.27**	Employment Agreement dated May 12, 2009 by and between the Company and Bruce Widener (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q dated August 12, 2009).
10.28**	Employment Agreement dated May 22, 2009 by and between the Company and Richard C. Mills (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q dated August 12, 2009).
10.29**	Employment Agreement dated May 22, 2009 by and between the Company and Robert Mohr (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q dated August 12, 2009).
10.30	Documents related to the Integra Bank Credit Facility (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-QSB dated May 15, 2008).
10.31	Registration Rights Agreement dated July 25, 2008 by and between the Company and the placement agent retained in the July 2008 offering of Common Stock (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q dated August 19, 2008).
10.33*	Placement Agency Agreement dated September 28, 2009 by and between the Company and the Placement Agent.
14.1	Code of Ethics (incorporated by reference to Exhibit 14.1 to the Company's Annual Report on Form 10-K dated January 13, 2009).
21.1	Subsidiaries of the Registrant (incorporated by reference to Exhibit 21 to the Company's Annual Report on Form 10-K dated January 13, 2009).
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 Executive 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 Executive Officer, pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

* Denotes filed herein.

** Denotes compensatory plan or management contract.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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 on December 29, 2009.

BEACON ENTERPRISE SOLUTIONS GROUP, INC.

By: /s/ Bruce Widener
Bruce Widener
Chief Executive Officer and Chairman of the
Board of Directors

Date: December 29, 2009

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Bruce Widener</u> Bruce Widener	Chief Executive Officer and Chairman of the Board (Principal Executive Officer)	December 29, 2009
<u>/s/ J. Sherman Henderson III</u> J. Sherman Henderson III	Director	December 29, 2009
<u>/s/ Dr. John D. Rhodes III</u> Dr. John D. Rhodes III	Director	December 29, 2009
<u>/s/ Robert Mohr</u> Robert Mohr	Chief Accounting Officer (Principal Financial Officer)	December 29, 2009

THE WARRANTS REPRESENTED BY THIS CERTIFICATE AND THE SECURITIES THAT MAY BE ISSUED UPON EXERCISE OF THE WARRANTS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE AND HAVE BEEN ISSUED IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS.

Beacon Enterprise Solutions Group, Inc.

STOCK PURCHASE WARRANT

Warrant No.

Dated:

Beacon Enterprise Solutions Group, Inc., a Nevada corporation (the “**Company**”), hereby certifies that, for value received, [INVESTOR NAME] or his registered assigns (the “**Holder**”), is entitled to purchase from the Company up to a total of [NO. SHARES] shares of common stock, \$0.001 par value per share (the “**Common Stock**”), of the Company (each such share, a “**Warrant Share**” and all such shares issuable under the warrants, the “**Warrant Shares**”) at an exercise price equal to \$1.00 per share (as adjusted from time to time as provided in Section 9, the “**Exercise Price**”), at any time and from the date hereof and through and including the date that is five (5) years from the date of issuance hereof (the “**Expiration Date**”), and subject to the following terms and conditions. All such warrants are referred to herein, collectively, as the “**Warrants**” and the holders thereof along with the Holder named herein, the “**Holders**.”

1. Definitions. In addition to the terms defined elsewhere in this Warrant, capitalized terms that are not otherwise defined herein have the meanings given to such terms in the Purchase Agreement.

2. Registration of Warrant. The Company shall register this Warrant, upon records to be maintained by the Company for that purpose (the “**Warrant Register**”), in the name of the record Holder hereof from time to time. The Company may deem and treat the registered Holder of this Warrant as the absolute owner hereof for the purpose of any exercise hereof or any distribution to the Holder, and for all other purposes, absent actual notice to the contrary.

3. Registration of Transfers. The Company shall register the transfer of any portion of this Warrant in the Warrant Register, upon surrender of this Warrant, with the Form of Assignment attached hereto duly completed and signed, to the Company’s transfer agent or to the Company at its address specified herein. Upon any such registration or transfer, a new

warrant to purchase Common Stock, in substantially the form of this Warrant (any such new warrant, a **“New Warrant”**), evidencing the portion of this Warrant so transferred shall be issued to the transferee and a New Warrant evidencing the remaining portion of this Warrant not so transferred, if any, shall be issued to the transferring Holder. The acceptance of the New Warrant by the transferee thereof shall be deemed the acceptance by such transferee of all of the rights and obligations of a holder of a Warrant.

4. Exercise and Duration of Warrants.

(a) This Warrant shall be exercisable by the registered Holder at any time and from time to time on or after the date hereof to and including the Expiration Date. At 6:30 P.M., New York City time on the Expiration Date, the portion of this Warrant not exercised prior thereto shall be and become void and of no value.

(b) A Holder may exercise this Warrant by delivering to the Company (i) an exercise notice, in the form attached hereto (the **“Exercise Notice”**), appropriately completed and duly signed, and (ii) payment of the Exercise Price for the number of Warrant Shares as to which this Warrant is being exercised (**which may take the form of a “cashless exercise” if so indicated in the Exercise Notice only if a “cashless exercise” may occur at such time pursuant to Section 10 below**), and the date such items are delivered to the Company (as determined in accordance with the notice provisions hereof) is an **“Exercise Date.”** The Holder shall not be required to deliver the original Warrant in order to effect an exercise hereunder. Execution and delivery of the Exercise Notice shall have the same effect as cancellation of the original Warrant and issuance of a New Warrant evidencing the right to purchase the remaining number of Warrant Shares.

(c) Exercise Disputes. In the case of any dispute with respect to the number of shares to be issued upon exercise of this Warrant, the Company shall promptly issue such number of shares of Common Stock that is not disputed and shall submit the disputed determinations or arithmetic calculations to the Holder via fax (or, if the Holder has not provided the Company with a fax number, by overnight courier) within two (2) Business Days of receipt of the Holder’s election to purchase Warrant Shares. If the Holder and the Company are unable to agree as to the determination of the Purchase Price within two (2) Business Days of such disputed determination or arithmetic calculation being submitted to the Holder, then the Company shall in accordance with this Section, submit via facsimile the disputed determination to an independent reputable accounting firm of national standing, selected jointly by the Company and the Holder. The Company shall cause such accounting firm to perform the determinations or calculations and notify the Company and the Holder of the results as promptly as possible from the time it receives the disputed determinations or calculations. Such accounting firm’s determination shall be binding upon all parties absent manifest error. The Company shall then on the next Business Day issue certificate(s) representing the appropriate number of Warrant Shares of Common Stock in accordance with such accounting firm’s determination and this Section. The prevailing party shall be entitled to reimbursement of all fees and expenses of such determination and calculation.

5. Delivery of Warrant Shares.

(a) Upon exercise of this Warrant, the Company shall promptly (but in no event later than five Trading Days after the Exercise Date) issue or cause to be issued and cause to be delivered to or upon the written order of the Holder and in such name or names as the Holder may designate, a certificate for the Warrant Shares to which the Holder is entitled upon such exercise, free of restrictive legends unless a registration statement covering the resale of the Warrant Shares and naming the Holder as a selling stockholder thereunder is not then effective and the Warrant Shares are not freely transferable pursuant to Rule 144 under the Securities Act of 1933, as amended. The Company shall, upon request of the Holder, use its best efforts to deliver Warrant Shares hereunder electronically through the Depository Trust Corporation or another established clearing corporation performing similar functions. For the purposes hereof, the term “Trading Day” means (a) any day on which the Common Stock is listed or quoted and traded on its primary trading market, (b) if the Common Stock is not then listed or quoted and traded on any trading market, then a day on which trading occurs on the Nasdaq Global Market (or any successor thereto), or (c) if trading ceases to occur on the Nasdaq Global Market (or any successor thereto), any Business Day.

(b) This Warrant is exercisable, either in its entirety or, from time to time, for a portion of the number of Warrant Shares. Upon surrender of this Warrant following one or more partial exercises, the Company shall issue or cause to be issued, at its expense, a New Warrant evidencing the right to purchase the remaining number of Warrant Shares.

(c) Intentionally Omitted.

(d) The Company’s obligations to issue and deliver Warrant Shares in accordance with the terms hereof are absolute and unconditional, irrespective of any action or inaction by the Holder to enforce the same, any waiver or consent with respect to any provision hereof, the recovery of any judgment against any Person or any action to enforce the same, or any setoff, counterclaim, recoupment, limitation or termination, or any breach or alleged breach by the Holder or any other Person of any obligation to the Company or any violation or alleged violation of law by the Holder or any other Person, and irrespective of any other circumstance which might otherwise limit such obligation of the Company to the Holder in connection with the issuance of Warrant Shares. Nothing herein shall limit a Holder’s right to pursue any other remedies available to it hereunder, at law or in equity including, without limitation, a decree of specific performance and/or injunctive relief with respect to the Company’s failure to timely deliver certificates representing shares of Common Stock upon exercise of the Warrant as required pursuant to the terms hereof.

6. Charges, Taxes and Expenses. Issuance and delivery of certificates for shares of Common Stock upon exercise of this Warrant shall be made without charge to the Holder for any issue or transfer tax, withholding tax, transfer agent fee or other incidental tax or expense in respect of the issuance of such certificates, all of which taxes and expenses shall be paid by the Company; provided, however, that the Company shall not be required to pay any tax which may be payable in respect of any transfer involved in the registration of any certificates for Warrant Shares or Warrants in a name other than that of the Holder. The Holder shall be responsible for all other tax liability that may arise as a result of holding or transferring this Warrant or receiving Warrant Shares upon exercise hereof.

7. Replacement of Warrant. If this Warrant is mutilated, lost, stolen or destroyed, the Company shall issue or cause to be issued in exchange and substitution for and upon cancellation hereof, or in lieu of and substitution for this Warrant, a New Warrant, but only upon receipt of evidence reasonably satisfactory to the Company of such loss, theft or destruction and customary and reasonable bond or indemnity, if requested. Applicants for a New Warrant under such circumstances shall also comply with such other reasonable regulations and procedures and pay such other reasonable third-party costs as the Company may prescribe.

8. Reservation of Warrant Shares. The Company covenants that it will at all times reserve and keep available out of the aggregate of its authorized but unissued and otherwise unreserved Common Stock, solely for the purpose of enabling it to issue Warrant Shares upon exercise of this Warrant as herein provided, 100% of the number of Warrant Shares which are then issuable and deliverable upon the exercise of this entire Warrant, free from preemptive rights or any other contingent purchase rights of persons other than the Holder (after giving effect to the adjustments and restrictions of Section 9, if any). The Company covenants that all Warrant Shares so issuable and deliverable shall, upon issuance and the payment of the applicable Exercise Price in accordance with the terms hereof, be duly and validly authorized, issued and fully paid and nonassessable. The Company will take all such action as may be necessary to assure that such shares of Common Stock may be issued as provided herein without violation of any applicable law or regulation, or of any requirements of any securities exchange or automated quotation system upon which the Common Stock may be listed.

9. Certain Adjustments. The Exercise Price and number of Warrant Shares issuable upon exercise of this Warrant are subject to adjustment from time to time as set forth in this Section 9.

(a) Stock Dividends and Splits. If the Company, at any time while this Warrant is outstanding, (i) pays a stock dividend on its Common Stock or otherwise makes a distribution on any class of capital stock that is payable in shares of Common Stock, (ii) subdivides outstanding shares of Common Stock into a larger number of shares, or (iii) combines outstanding shares of Common Stock into a smaller number of shares, then in each such case the Exercise Price shall be multiplied by a fraction of which the numerator shall be the number of shares of Common Stock outstanding immediately before such event and of which the denominator shall be the number of shares of Common Stock outstanding immediately after such event. Any adjustment made pursuant to clause (i) of this paragraph shall become effective immediately after the record date for the determination of stockholders entitled to receive such dividend or distribution, and any adjustment pursuant to clause (ii) or (iii) of this paragraph shall become effective immediately after the effective date of such subdivision or combination.

(b) Distributions Made Prior to Exercise. If the Company, at any time while this Warrant is outstanding, distributes to all of the holders of Common Stock (i) evidences of its indebtedness, (ii) any security (other than a distribution of Common Stock covered by Section 9(a)), (iii) rights or warrants to subscribe for or purchase any security, or (iv) any other asset (in each case, a “**Distribution**”), then in each such case any Exercise Price in effect immediately prior to the close of business on the record date fixed for the determination of holders of Common Stock entitled to receive the Distribution shall be reduced, effective as of the close of business on such record date, to a price determined by multiplying such Exercise Price by a

fraction of which (i) the numerator shall be the Weighted Average Price¹ of the Common Stock on the Trading Day immediately preceding such record date minus the value of the Distribution (as determined in good faith by the Company's Board of Directors) applicable to one share of Common Stock, and (ii) the denominator shall be the Weighted Average Price of the Common Stock on the Trading Day immediately preceding such record date.

(c) Notwithstanding the provisions set forth in Section 9(b) above, if the Company, at any time while this Warrant is outstanding, makes a Distribution to the holders of Common Stock, then in each such case the Holder shall have the option to receive such Distribution which would have been made to the Holder had such Holder been the holder of such Warrant Shares on the record date for the determination of stockholders entitled to such Distribution; provided, however, if the Holder elects to receive such Distribution, it will not be entitled to receive the adjustment to the Exercise Price specified in clause (b) above.

(d) **Fundamental Transactions.** If, at any time during the term of this Warrant, (i) the Company effects any merger or consolidation of the Company with or into (whether or not the Company is the surviving corporation) another Person, (ii) the Company effects any sale, assignment, transfer, conveyance or other disposition of all or substantially all of its assets in one or a series of related transactions; provided, however, that for avoidance of doubt, the granting of a lien on all or substantially all of the Company's assets as collateral shall not be deemed a Fundamental Transaction hereunder, (iii) allow another Person to make a purchase, tender or exchange offer that is accepted by the holders of more than the 50% of either the outstanding shares of Common Stock (not including any shares of Common Stock held by the Person or Persons making or party to, or associated or affiliated with the Persons making or party to, such purchase, tender or exchange offer), (iv) consummate a stock purchase agreement or other business combination (including, without limitation, a reorganization, recapitalization, spin-off or scheme of arrangement) with another Person whereby such other Person acquires more than the 50% of the outstanding shares of Common Stock (not including any shares of Common Stock held by the other Person or other Persons making or party to, or associated or affiliated with the other Persons making or party to, such stock purchase agreement or other business combination), or (v) the Company effects any reclassification of the Common Stock or any compulsory share exchange pursuant to which the Common Stock is effectively converted into or exchanged for other securities, cash or property (other than as a result of a subdivision or combination of shares of Common Stock covered by Section 9(a) above) (in any such case, a "**Fundamental Transaction**"), then the Holder shall have the right thereafter to receive, upon

¹ "Weighted Average Price" means, for any security as of any date, the dollar volume-weighted average price for such security on NASDAQ during the period beginning at 9:30:01 a.m., New York Time (or such other time as NASDAQ publicly announces is the official open of trading), and ending at 4:00:00 p.m., New York Time (or such other time as NASDAQ publicly announces is the official close of trading) as reported by Bloomberg (means Bloomberg Financial Markets) through its "Volume at Price" functions, or, if the foregoing does not apply, the dollar volume-weighted average price of such security in the over-the-counter market on the electronic bulletin board for such security during the period beginning at 9:30:01 a.m., New York Time (or such other time as such Principal Market publicly announces is the official open of trading), and ending at 4:00:00 p.m., New York Time (or such other time as such market publicly announces is the official close of trading) as reported by Bloomberg, if no dollar volume-weighted average price is reported for such security by Bloomberg for such hours, the average of the highest closing bid price and the lowest closing ask price of any of the market makers for such security as reported in the "pink sheets" by Pink Sheets LLC (formerly the National Quotation Bureau, Inc.). If the Weighted Average Price cannot be calculated for a security on a particular date on any of the foregoing bases, the Weighted Average Price of such security on such date shall be the fair market value as mutually determined by the Company in good faith. All such determinations shall be appropriately adjusted for any share dividend, share split, share combination or other similar transaction during the applicable calculation period.

exercise of this Warrant, the same amount and kind of securities, cash or property as it would have been entitled to receive upon the occurrence of such Fundamental Transaction if it had been, immediately prior to such Fundamental Transaction, the holder of the number of Warrant Shares then issuable upon exercise in full of this Warrant (the “**Alternate Consideration**”). The aggregate Exercise Price for this Warrant will not be affected by any such Fundamental Transaction, but the Company shall apportion such aggregate Exercise Price among the Alternate Consideration in a reasonable manner reflecting the relative value of any different components of the Alternate Consideration. If holders of Common Stock are given any choice as to the securities, cash or property to be received in a Fundamental Transaction, then the Holder shall be given the same choice as to the Alternate Consideration it receives upon any exercise of this Warrant following such Fundamental Transaction. At the Holder’s request, any successor to the Company or surviving entity in such Fundamental Transaction shall issue to the Holder a new warrant consistent with the foregoing provisions and evidencing the Holder’s right to purchase the Alternate Consideration for the aggregate Exercise Price upon exercise thereof. The terms of any agreement pursuant to which a Fundamental Transaction is effected shall include terms requiring any such successor or surviving entity to comply with the provisions of this paragraph (d) and insuring that the Warrant (or any such replacement security) will be similarly adjusted upon any subsequent transaction analogous to a Fundamental Transaction.

(e) Weighted Average Anti-Dilution Price Protection. The Exercise Price of Warrant Shares (or any shares of stock or other securities which may be) issuable upon the exercise of this Warrant shall be subject to adjustment from time to time, as follows:

(1) “New Securities” shall mean any Common Stock or preferred stock of Company issued during the term of this Warrant, whether now authorized or not, and rights, options or warrants to purchase said Common Stock or preferred stock, and securities of any type whatsoever that are, or may become, convertible into said Common Stock or preferred stock (including but not limited to convertible debt or any other instrument exercisable for or convertible into Common Stock); provided, however, that “New Securities” does not include (i) any securities issued or issuable pursuant to any of the notes, options, warrants or other securities outstanding as of the date of the closing of the offering pursuant to the Purchase Agreement, including all Warrants; (ii) the issuance or sale of any shares of capital stock, or the grant of options exercisable therefor, issued or issuable after the date of this Warrant, to directors, officers, employees, advisers and consultants of the Company or any subsidiary pursuant to any incentive or non-qualified stock option plan or agreement, stock purchase plan or agreement, stock restriction agreement or restricted stock plan, employee stock ownership plan (ESOP), consulting agreement, stock appreciation right (SAR), stock depreciation right (SDR), bonus stock arrangement, or such other similar compensatory options, issuances, arrangements, agreements or plans approved by the Board of Directors of the Company; (iii) upon the issuance of any shares of capital stock or the grant of warrants or options (or the exercise thereof) as consideration for mergers, acquisitions, strategic alliances and other commercial transactions, other than in connection with a financing transaction or (iv) shares of Company’s Common Stock issued in connection with any stock split, stock dividend, or recapitalization by Company.

(2) In the event that Company issues New Securities for a consideration of less than the Exercise Price (as adjusted per this Section 9 hereof), or if the Exercise Price shall have been adjusted hereunder, and the Company issues New Securities for a purchase price below the adjusted Exercise Price, then the then-current Exercise Price shall be adjusted downward to a price determined by dividing

i. the sum of (w) the Exercise Price in effect before the issuance of such New Securities multiplied by the number of shares of the Company's Common Stock then issued and outstanding and (x) the consideration, if any, received by or deemed to have been received by the Company on the issue of such New Securities by:

ii. the sum of (y) the number of shares of the Company's Common Stock then issued and outstanding immediately prior to the issuance of such New Securities and (z) the number of Additional Shares of Common Stock issued or deemed to have been issued in the issuance of such New Securities.

(3) In the case of the issuance of Common Stock for cash, the consideration shall be deemed to be the amount of cash paid.

(4) In the case of the issuance of Common Stock for a consideration in whole or in part other than cash, the consideration other than cash shall be deemed to be the fair value thereof as reasonably determined by the Company's board of directors consistent with its fiduciary duties irrespective of any accounting treatment.

(5) The Company will not by reorganization, transfer of assets, consolidation, merger, dissolution, or otherwise, avoid or seek to avoid observance or performance of any of the terms of this Section 9, but will at all times in good faith assist in the carrying out and performance of all provisions of this Section 9 in order to protect the rights of the Holder against impairment.

(f) Number of Warrant Shares. Simultaneously with any adjustment to the Exercise Price pursuant to paragraph (a) of this Section, the number of Warrant Shares that may be purchased upon exercise of this Warrant shall be increased or decreased proportionately, as applicable, so that after such adjustment the aggregate Exercise Price payable hereunder for the increased or decreased, as applicable, number of Warrant Shares shall be the same as the aggregate Exercise Price in effect immediately prior to such adjustment.

(g) Calculations. All calculations under this Section 9 shall be made to the nearest cent or the nearest 1/100th of a share, as applicable. The number of shares of Common Stock outstanding at any given time shall not include shares owned or held by or for the account of the Company, and the disposition of any such shares shall be considered an issue or sale of Common Stock.

(h) Notice of Adjustments. Upon the occurrence of each adjustment pursuant to this Section 9, the Company at its expense will promptly compute such adjustment in accordance with the terms of this Warrant and prepare a certificate setting forth such adjustment, including a statement of the adjusted Exercise Price and adjusted number or type of Warrant

Shares or other securities issuable upon exercise of this Warrant (as applicable), describing the transactions giving rise to such adjustments and showing in detail the facts upon which such adjustment is based. Upon written request, the Company will promptly deliver a copy of each such certificate to the Holder and to the Company's Transfer Agent.

(i) Notice of Corporate Events. If the Company (i) declares a dividend or any other distribution of cash, securities or other property in respect of its Common Stock, including without limitation any granting of rights or warrants to subscribe for or purchase any capital stock of the Company or any Subsidiary, (ii) authorizes or approves, enters into any agreement contemplating or solicits stockholder approval for any Fundamental Transaction or (iii) authorizes the voluntary dissolution, liquidation or winding up of the affairs of the Company, then the Company shall deliver to the Holder a notice describing the material terms and conditions of such transaction, at least ten calendar days prior to the applicable record or effective date on which a Person would need to hold Common Stock in order to participate in or vote with respect to such transaction, and the Company will take all steps reasonably necessary in order to insure that the Holder is given the practical opportunity to exercise this Warrant prior to such time so as to participate in or vote with respect to such transaction; provided, however, that the failure to deliver such notice or any defect therein shall not affect the validity of the corporate action required to be described in such notice.

10. Payment of Exercise Price. The Holder shall pay the Exercise Price in immediately available funds (a "cash exercise"); provided, however, that if at any time after the date that is six (6) months after the date of this Warrant (the "**Required Effective Date**") a Registration Statement covering the resale of the Warrant Shares is not effective on the Exercise Date, or no current prospectus under such Registration Statement is available, the Holder may satisfy its obligation to pay the Exercise Price through a "cashless exercise," in which event the Company shall issue to the Holder the number of Warrant Shares determined as follows:

$$X = Y [(A-B)/A]$$

where:

X = the number of Warrant Shares to be issued to the Holder.

Y = the number of Warrant Shares with respect to which this Warrant is being exercised (prior to cashless exercise).

A = the average of the Closing Prices for the five Trading Days immediately prior to (but not including) the Exercise Date.

B = the Exercise Price.

For purposes of this Section 10, "Closing Prices" for any date, shall mean the closing price per share of the Common Stock for such date (or the nearest preceding date) on the primary trading market on which the Common Stock is then listed or quoted.

For purposes of Rule 144 promulgated under the Securities Act, it is intended, understood and acknowledged that the Warrant Shares issued in a cashless exercise transaction shall be deemed to have been acquired by the Holder, and the holding period for the Warrant

Shares shall be deemed to have commenced, on the date this Warrant was originally issued pursuant to the Purchase Agreement.

11. Limitation on Exercise.² Notwithstanding anything to the contrary contained herein, the number of shares of Common Stock that may be acquired by the Holder upon any exercise of this Warrant (or otherwise in respect hereof) shall be limited to the extent necessary to insure that, following such exercise (or other issuance), the total number of shares of Common Stock then beneficially owned by such Holder and its Affiliates and any other Persons whose beneficial ownership of Common Stock would be aggregated with the Holder's for purposes of Section 13(d) of the Exchange Act, does not exceed 4.999% (the "**Maximum Percentage**") of the total number of issued and outstanding shares of Common Stock (including for such purpose the shares of Common Stock issuable upon such exercise). For such purposes, beneficial ownership shall be determined in accordance with Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder. The Company's obligation to issue shares of Common Stock in excess of the limitation referred to in this Section shall be suspended (and shall not terminate or expire notwithstanding any contrary provisions hereof) until such time, if any, as such shares of Common Stock may be issued in compliance with such limitation, but in no event later than the Expiration Date. By written notice to the Company, the Holder may waive the provisions of this Section or increase or decrease the Maximum Percentage to any other percentage specified in such notice, but (i) any such waiver or increase will not be effective until the 61st day after such notice is delivered to the Company, and (ii) any such waiver or increase or decrease will apply only to the Holder and not to any other holder of Warrants.

12. Fractional Shares. The Company shall not be required to issue or cause to be issued fractional Warrant Shares on the exercise of this Warrant. If any fraction of a Warrant Share would, except for the provisions of this Section, be issuable upon exercise of this Warrant, the number of Warrant Shares to be issued will be rounded up to the nearest whole share.

13. Notices. Any and all notices or other communications or deliveries hereunder (including without limitation any Exercise Notice) shall be in writing and shall be deemed given and effective on the earliest of (i) the date of transmission, if such notice or communication is delivered via facsimile at the facsimile number specified in the Purchase Agreement prior to 6:30 p.m. (New York City time) on a Trading Day, (ii) the next Trading Day after the date of transmission, if such notice or communication is delivered via facsimile at the facsimile number specified in the Purchase Agreement on a day that is not a Trading Day or later than 6:30 p.m. (New York City time) on any Trading Day, (iii) the Trading Day following the date of mailing, if sent by nationally recognized overnight courier service, or (iv) upon actual receipt by the party to whom such notice is required to be given. The address for such notices or communications shall be as set forth in the Purchase Agreement.

14. Warrant Agent. The Company shall serve as warrant agent under this Warrant. Upon 30 days' notice to the Holder, the Company may appoint a new warrant agent. Any corporation into which the Company or any new warrant agent may be merged or any corporation resulting from any consolidation to which the Company or any new warrant agent

² This provision is available for Investors, and the percentage may be modified at the Investor's request.

shall be a party shall be a successor warrant agent under this Warrant without any further act. Any such successor warrant agent shall promptly cause notice of its succession as warrant agent to be mailed (by first class mail, postage prepaid) to the Holder at the Holder's last address as shown on the Warrant Register.

15. Registration of Warrant Shares. The Warrant Shares shall be entitled to "piggy-back" registration rights as set forth in the Registration Rights Agreement.

16. Miscellaneous.

(a) Subject to the restrictions on transfer set forth on the first page hereof, this Warrant may be assigned by the Holder. This Warrant may not be assigned by the Company, except to a successor in the event of a Fundamental Transaction. This Warrant shall be binding on and inure to the benefit of the parties hereto and their respective successors and assigns. Subject to the preceding sentence, nothing in this Warrant shall be construed to give to any Person other than the Company and the Holder any legal or equitable right, remedy or cause of action under this Warrant.

(b) The Company will not, by amendment of its governing documents or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, seek to call or redeem this Warrant or avoid or seek to avoid the observance or performance of any of the terms of this Warrant, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such action as may be necessary or appropriate in order to protect the rights of the Holder against dilution or other impairment. Without limiting the generality of the foregoing, the Company (i) will not increase the par value of any Warrant Shares above the amount payable therefor on such exercise, (ii) will take all such action as may be reasonably necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable Warrant Shares, free from all taxes, liens, security interests, encumbrances, preemptive or similar rights and charges of stockholders (other than those imposed by the Holders), on the exercise of the Warrant, and (iii) will not close its stockholder books or records in any manner which interferes with the timely exercise of this Warrant.

(c) Remedies: Specific Performance. The Company acknowledges and agrees that there would be no adequate remedy at law to the Holder of this Warrant in the event of any default or threatened default by the Company in the performance of or compliance with any of the terms of this Warrant and accordingly, the Company agrees that, in addition to any other remedy to which the Holder may be entitled at law or in equity, the Holder shall be entitled to seek to compel specific performance of the obligations of the Company under this Warrant, without the posting of any bond, in accordance with the terms and conditions of this Warrant in any court of the United States or any State thereof having jurisdiction, and if any action should be brought in equity to enforce any of the provisions of this Warrant, the Company shall not raise the defense that there is an adequate remedy at law. Except as otherwise provided by law, a delay or omission by the Holder hereof in exercising any right or remedy accruing upon any such breach shall not impair the right or remedy or constitute a waiver of or acquiescence in any such breach. No remedy shall be exclusive of any other remedy. All available remedies shall be cumulative.

(d) Amendments and Waivers. The Company may, without the consent of the Holders, by supplemental agreement or otherwise, (i) make any changes or corrections in this Agreement that are required to cure any ambiguity or to correct or supplement any provision herein which may be defective or inconsistent with any other provision herein or (ii) add to the covenants and agreements of the Company for the benefit of the Holders (including, without limitation, reduce the Exercise Price or extend the Expiration Date), or surrender any rights or power reserved to or conferred upon the Company in this Agreement; provided that, in the case of (i) or (ii), such changes or corrections shall not adversely affect the interests of Holders of then outstanding Warrants in any material respect. This Warrant may also be amended or waived with the consent of the Company and the Holder. Further, the Company may, with the consent, in writing or at a meeting, of the Holders (the “**Required Holders**”) of the then outstanding Warrants exercisable for a majority or greater of the Common Stock eligible under such Warrants, amend in any way, by supplemental agreement or otherwise, this Warrant and/or all of the outstanding Warrants; provided, however, that (i) no such amendment by its express terms shall adversely affect any Holder differently than it affects all other Holders, unless such Holder consents thereto, and (ii) no such amendment concerning the number of Warrant Shares or Exercise Price shall be made unless any Holder who will be affected by such amendment consents thereto. If a new warrant agent is appointed by the Company, it shall at the request of the Company, and without need of independent inquiry as to whether such supplemental agreement is permitted by the terms of this Section 16(d), join with the Company in the execution and delivery of any such supplemental agreements, but shall not be required to join in such execution and delivery for such supplemental agreement to become effective.

(e) GOVERNING LAW; VENUE; WAIVER OF JURY TRIAL. THE CORPORATE LAWS OF THE STATE OF NEW YORK SHALL GOVERN ALL ISSUES CONCERNING THE RELATIVE RIGHTS OF THE COMPANY AND ITS STOCKHOLDERS. ALL QUESTIONS CONCERNING THE CONSTRUCTION, VALIDITY, ENFORCEMENT AND INTERPRETATION OF THIS WARRANT SHALL BE GOVERNED BY AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK. THE COMPANY AND HOLDERS HEREBY IRREVOCABLY SUBMIT TO THE EXCLUSIVE JURISDICTION OF THE STATE AND FEDERAL COURTS SITTING IN THE CITY OF NEW YORK, BOROUGH OF MANHATTAN FOR THE ADJUDICATION OF ANY DISPUTE BROUGHT BY THE COMPANY OR ANY HOLDER HEREUNDER, IN CONNECTION HERewith OR WITH ANY TRANSACTION CONTEMPLATED HEREBY OR DISCUSSED HEREIN, AND HEREBY IRREVOCABLY WAIVE, AND AGREE NOT TO ASSERT IN ANY SUIT, ACTION OR PROCEEDING BROUGHT BY THE COMPANY OR ANY HOLDER, ANY CLAIM THAT IT IS NOT PERSONALLY SUBJECT TO THE JURISDICTION OF ANY SUCH COURT, OR THAT SUCH SUIT, ACTION OR PROCEEDING IS IMPROPER. EACH PARTY HEREBY IRREVOCABLY WAIVES PERSONAL SERVICE OF PROCESS AND CONSENTS TO PROCESS BEING SERVED IN ANY SUCH SUIT, ACTION OR PROCEEDING BY MAILING A COPY THEREOF VIA REGISTERED OR CERTIFIED MAIL OR OVERNIGHT DELIVERY (WITH EVIDENCE OF DELIVERY) TO SUCH PARTY AT THE ADDRESS IN EFFECT FOR NOTICES TO IT UNDER THIS WARRANT AND AGREES THAT SUCH SERVICE SHALL CONSTITUTE GOOD AND SUFFICIENT SERVICE OF PROCESS AND NOTICE THEREOF. NOTHING CONTAINED HEREIN SHALL BE DEEMED TO LIMIT IN ANY WAY ANY RIGHT TO SERVE PROCESS IN ANY MANNER PERMITTED BY

LAW. THE COMPANY AND HOLDERS HEREBY WAIVE ALL RIGHTS TO A TRIAL BY JURY.

(f) The headings herein are for convenience only, do not constitute a part of this Warrant and shall not be deemed to limit or affect any of the provisions hereof.

(g) In case any one or more of the provisions of this Warrant shall be invalid or unenforceable in any respect, the validity and enforceability of the remaining terms and provisions of this Warrant shall not in any way be affected or impaired thereby and the parties will attempt in good faith to agree upon a valid and enforceable provision which shall be a commercially reasonable substitute therefor, and upon so agreeing, shall incorporate such substitute provision in this Warrant.

IN WITNESS WHEREOF, the Company has caused this Warrant to be duly executed by its authorized officer as of the date first indicated above.

BEACON ENTERPRISE SOLUTIONS GROUP, INC.

By: /s/ Bruce Widener

Name: Bruce Widener

Title: Chief Executive Officer

FORM OF EXERCISE NOTICE

(To be executed by the Holder to exercise the right to purchase shares of Common Stock under the foregoing Warrant)

To: COMPANY NAME

The undersigned is the Holder of Warrant No. _____ (the "Warrant") issued by Company Name, a Nevada corporation (the "Company"). Capitalized terms used herein and not otherwise defined have the respective meanings set forth in the Warrant.

- (a) The Warrant is currently exercisable to purchase a total of _____ Warrant Shares.
- (b) The undersigned Holder hereby exercises its right to purchase _____ Warrant Shares pursuant to the Warrant.
- (c) The Holder shall make Payment of the Exercise Price as follows (check one):
 - _____ "Cash Exercise" under Section 10
 - _____ "Cashless Exercise" under Section 10
- (d) If the holder is making a Cash Exercise, the holder shall pay the sum of \$ _____ to the Company in accordance with the terms of the Warrant.
- (e) Pursuant to this exercise, the Company shall deliver to the holder _____ Warrant Shares in accordance with the terms of the Warrant.
- (f) Following this exercise, the Warrant shall be exercisable to purchase a total of _____ Warrant Shares.
- (g) Notwithstanding anything to the contrary contained herein, this Exercise Notice shall constitute a representation by the Holder that, after giving effect to the exercise provided for in this Exercise Notice, the Holder (together with its affiliates) will not have beneficial ownership (together with the beneficial ownership of such Person's affiliates) of a number of shares of Common Stock which exceeds the Maximum Percentage of the total outstanding shares of Common Stock as determined pursuant to the provisions of Section 11(a) of the Warrant.

Dated: _____, ____

Name of Holder: _____
(Print)

By: _____
Name: _____
Title: _____

(Signature must conform in all respects to name of holder as specified on the face of the Warrant)

FORM OF ASSIGNMENT

[To be completed and signed only upon transfer of Warrant]

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto _____ the right represented by the within Warrant to purchase _____ shares of Common Stock of Company Name to which the within Warrant relates and appoints _____ attorney to transfer said right on the books of Company Name with full power of substitution in the premises.

Dated: _____, _____

(Signature must conform in all respects to name of holder as specified on the face of the Warrant)

Address of Transferee

In the presence of:

BEACON ENTERPRISE SOLUTIONS GROUP, INC.

SELLING AGENT AGREEMENT

September 28, 2009

[NAME OF SELLING AGENT]

[ADDRESS]

Attn.: [CONTACT]

Re: Proposed Private Placement

Ladies and Gentlemen:

BEACON ENTERPRISE SOLUTIONS GROUP, INC., a corporation organized under the laws of Nevada (the “**Company**”), proposes to offer for sale (the “**Offering**”) in a private offering pursuant to Regulation D promulgated under the Securities Act of 1933, as amended (the “**Act**”) an aggregate amount of up to \$3,000,000 (the “**Offering Amount**”) of units (each a “**Unit**,” and, collectively, the “**Units**”) at a price of \$0.80 per Unit (the “**Offering**”). Each Unit consists of (i) one share of the Company Common Stock (the “**Company Common Stock**”) and (ii) a five (5) year warrant (the “**Investor Warrants**”) to purchase 0.50 shares of the Company Common Stock at a price of \$1.00 per share. The Company reserves the right to increase the Offering Amount by 1,250,000 Units or \$1,000,000 of gross proceeds in its discretion. The Units, Company Common Stock and Investor Warrants are sometimes collectively referred to as the “**Securities**”). This letter agreement shall confirm our agreement concerning [NAME OF SELLING AGENT] acting as a non-exclusive selling agent (the “**Selling Agent**”) in connection with the offer and sale of the Securities.

1. Appointment of Selling Agent.

On the basis of the representations and warranties contained herein, and subject to the terms and conditions set forth herein, the Company hereby appoints Selling Agent as a non-exclusive selling agent during the offering period (as defined below) and grants to Selling Agent the right to offer, as its agent, the Securities pursuant to the terms of this Agreement. On the basis of such representations and warranties, and subject to such conditions, Selling Agent hereby accepts such appointment and agrees to use its reasonable best efforts to secure subscribers to purchase subscriptions for the Securities. The Selling Agent may engage other FINRA member broker-dealer firms as sub-selling agents, and each such sub-selling agent shall be entitled to such compensation for its efforts as shall be determined between the Selling Agent and such sub-selling agent. The Company understands that the Selling Agent is being retained to obtain subscriptions for the Securities on a “best efforts” basis and has not guaranteed the sale of any Securities and is not purchasing any of the Securities for its own account.

2. Terms of the Offering.

(a) The Offering is being made on a “best efforts” basis with no minimum offering amount of subscriptions. In the event a subscription is not accepted by the Company or

Selling Agent, such rejected subscription funds will be returned to the subscriber without interest or deduction.

(b) The Company has prepared a Private Placement Offering Memorandum dated as of September 18, 2009 (together with its exhibits the “**PPM**”), a form of Warrant and Subscription Agreement to be delivered to all prospective investors. The PPM, form of Warrant and Subscription Agreement, including all supplements, exhibits, schedules and appendices thereto and other documents delivered therewith, are referred to herein as the “**Offering Documents**” and shall include any supplements or amendments in accordance with this Agreement. The Offering shall commence on the date hereof, and shall expire at 3:00 p.m., New York time, on October 31, 2009, unless extended in the sole discretion of the Company to a date not later than December 31, 2009. Such period, as same may be so extended, shall hereinafter be referred to as the “**Offering Period**.”

(c) Each prospective investor (a “**Prospective Investor**”) who desires to purchase Securities shall deliver to the Selling Agent the Subscription Agreement and other Offering Documents required to be executed by the investor and immediately available funds in the amount necessary to purchase the amount of Securities such Prospective Investor desires to purchase. The Selling Agent shall not have any obligation to independently verify the accuracy or completeness of any information contained in any Offering Documents or the authenticity, sufficiency, or validity of any check delivered by any Prospective Investor in payment for Securities. Purchasers in the Offering shall be “accredited investors” as determined in accordance with Regulation D (“**Regulation D**”) as promulgated by the Securities and Exchange Commission (the “**SEC**”). The Selling Agent and the Company shall be entitled to rely upon the statements made by the Prospective Investors in the Offering Documents executed by them. Prospective Investors whose subscriptions are accepted are sometimes referred to herein as “**Subscribers**”.

3. Closing/Release of Funds.

(a) Each closing (a “**Closing**”) shall be held at such time as the conditions as provided in the Offering Documents have been satisfied. References herein to the actual closing date thereof shall be referred to as a “**Closing Date**.” The parties confirm that there is no minimum amount of Securities to be sold in the Offering.

(b) All subscription funds shall be placed in a non interest bearing escrow account at Signature Bank located at 261 Madison Avenue in New York, New York pursuant to an escrow agreement to be entered into by and among the Company and Signature Bank as escrow agent. The Company shall be responsible for the fee of the escrow agent in the amount of \$3,500.

(c) Prior to or at each closing, the Company shall deliver to the Selling Agent the Securities to be issued to each Subscriber and the Selling Agent whose subscription has been accepted at each such closing and the Selling Agent Warrants (as defined in Section 5 below) issuable to the Selling Agent. The Selling Agent and the Company shall execute such closing documents as are customary and usual, including, without limitation, an escrow release notice, an officers’ certificate and a subscription acceptance.

4. Representations and Warranties of the Selling Agent.

The Selling Agent represents and warrants to the Company as follows:

(a) The Selling Agent is duly incorporated and validly existing and in good standing under the laws of its state of incorporation.

(b) The Selling Agent is, and at the time of each Closing will be, a duly registered broker-dealer pursuant to the Securities Exchange Act of 1934, as amended and the rules and regulations promulgated thereunder (the “**1934 Act**”) and any applicable state statute where sales of the Securities will be made, and a member in good standing of FINRA.

(c) Offers and sales of Securities by the Selling Agent will be made only in accordance with this Selling Agreement, the Selling Agent shall not engage in any form of general solicitation or general advertising that is prohibited by Regulation D in connection with the Offering, or take any action that might reasonably be expected to jeopardize the availability for the Offering of the exemption from registration provided by Rule 506 under Regulation D, and the Selling Agent will furnish to each investor a copy of the Offering Documents prior to accepting any subscription for the Securities.

5. Compensation.

(a) The Selling Agent shall be entitled, on the Closing Date, as compensation for its services as Selling Agent under this Agreement, to (i) selling Commissions payable in cash equal to ten percent (10%) of the aggregate gross proceeds of the Securities sold by Selling Agent in the Offering; and (ii) a non-accountable expense allowance equal to 3% of the gross proceeds of the Securities sold by Selling Agent in the Offering.

(b) In addition to the compensation payable to the Selling Agent set forth in clause (a) above, the Company shall grant the Selling Agent (or its assigns, subject to compliance with the terms and conditions of this Section) warrants to purchase a number of shares of Common Stock equal to 10% of the aggregate number of shares of Common Stock (x) included in the Units sold by Selling Agent and (y) issuable upon exercise of the Investor Warrants sold by Selling Agent (the “**Selling Agent Warrants**”). The Agent Warrant will have a cashless exercise provision, contain weighted average anti-dilution provisions, have the same exercise price as the Investor Warrant and have the same registration rights as the securities underlying the Units. The Company shall not include the underlying shares in any registration statement without the prior written consent of the Selling Agent. The Selling Agent Warrants may be issued to employees and/or affiliates of the Selling Agent in such amounts as the Selling Agent shall notify in writing the Company prior to or after the Closing.

6. Representations and Warranties of the Company.

(a) The Company represents and warrants to, and agrees with, the Selling Agent that:

(i) No Offering Documents or information provided by the Company to the Subscribers, including, without limitation the SEC Reports (as defined in the Subscription Agreement), contains or shall contain, or, in the case of the SEC Reports, contained at the time such reports were filed with the SEC, any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein in light of circumstances made therein not misleading.

(ii) The Company is, and on each Closing Date will be, a corporation duly organized, validly existing, and in good standing under the laws of the place of its formation, with full corporate power and authority, and has obtained all necessary consents, authorizations, approvals, orders, licenses, certificates, and permits and declarations of and from, and has made filings with, all federal, state and local authorities, to own, lease, license, and use its properties and assets and to conduct its business as presently conducted and/or in any such case where the failure to have any of the foregoing would not have a material adverse effect on the Company's presently conducted business. As of the date hereof, the Company is, and on each Closing Date shall be, duly qualified to do business and is in good standing in every jurisdiction in which its ownership, leasing, licensing, or use of property and assets or the conduct of its business makes such qualification necessary except where the failure to be so qualified would not have a material adverse effect on the Company's business.

(iii) As of the date hereof, except as disclosed in the Offering Documents or the SEC Reports , there is no, and as of each Closing Date there shall not be any, litigation, arbitration, claim, governmental or other proceeding (formal or informal), or investigation pending or to the Company's knowledge threatened, with respect to the Company, or its respective operations, businesses, properties, or assets, except which individually or in the aggregate do not now have and will not in the future have a material adverse effect upon the operations, business, properties, or assets of the Company.

(iv) The Company is not in violation or breach of, or in default with respect to, any material term of its articles of incorporation or by-laws, as amended, as in effect as the date hereof and as of each Closing Date.

(v) The Company has all requisite corporate power and authority to execute, deliver, and perform this Agreement and to consummate the transactions contemplated hereby. All necessary corporate proceedings of the Company have been duly taken to authorize the execution, delivery, and performance by the Company of this Agreement and the Offering Documents and the consummation of the transactions contemplated hereby and thereby.

(vi) The Securities and the Selling Agent Warrants, when issued and delivered pursuant to the terms hereof shall be duly authorized, validly issued, fully paid and non-assessable, without any personal liability attaching to the ownership thereof solely by being such holder and shall not have been issued in violation of any preemptive rights of stockholders.

(vii) Neither the Company nor any of its officers, directors, or affiliates, has engaged or will engage, directly or indirectly, in any act or activity that may jeopardize the status of the offering and sale of the Securities as an exempt transaction under Regulation D of the Securities Act of 1933, as amended.

(viii) The Selling Agent shall be entitled to rely upon the representations and warranties contained in the Offering Documents on the same basis as if the representations and warranties have been made hereunder to the Selling Agent, all of which are incorporated herein by reference.

(ix) To the knowledge of the Company after reasonable investigation, during the past five years, except as disclosed in the Offering Documents or the SEC Reports, none of the current officers or directors of the Company have been:

(a) The subject of a petition under the federal bankruptcy laws or any state insolvency law filed by or against them, or by a receiver, fiscal agent or similar officer appointed by a court for their business or property, or any partnership in which any or them was a general partner at or within two years before the time of such filing, or any corporation or business association of which any of them was an executive officer at or within two years before the time of such filing;

(b) Convicted in a criminal proceeding or a named subject of a pending criminal proceeding (excluding traffic violations and other minor offenses);

(c) The subject of any order, judgment, or decree not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining any of them from, or otherwise limiting, any of the following activities:

(i) acting as a futures commission merchant, introducing broker, commodity trading advisor, commodity pool operator, floor broker, leverage transaction merchant, any other person regulated by the Commodity Futures Trading Commission, or an associated person of any of the foregoing, or as an investment adviser, underwriter, broker or dealer in securities, or as an affiliated person, director or employee of any investment company, bank, savings and loan association or insurance company, or engaging in or continuing any conduct or practice in connection with any such activity;

(ii) engaging in any type of business practice; or

(iii) engaging in any activity in connection with the purchase or sale of any security or commodity or in connection with any violation of federal or state securities law or federal commodity laws.

(d) the subject of any order, judgment or decree, not subsequently reversed, suspended or vacated of any federal or state authority barring, suspending or otherwise limiting for more than sixty (60) days their right to engage in any activity described in paragraph (c)(i) above, or be associated with persons engaged in any such activity;

(e) found by any court of competent jurisdiction in a civil action or by the Securities and Exchange Commission to have violated any federal or state securities law, and the judgment in such civil action or finding by the Commission has not been subsequently reversed, suspended or vacated;

(f) found by a court of competent jurisdiction in a civil action or by the Commodity Futures Trading Commission to have violated any federal commodities law, and the judgment in such civil action or finding by the Commodity Futures Trading Commission has not been subsequently reversed, suspended or vacated; or

(g) found by a court or an administrative agency to have or is alleged to have violated any foreign securities laws.

(ix) The Company and its subsidiaries maintain a system of internal accounting and other controls sufficient to provide reasonable assurances that: (i) transactions are executed in accordance with management's general or specific authorizations, (ii) transactions are recorded as necessary to permit preparation of reliable financial statements in conformity with United States generally accepted accounting principles and to maintain accountability for assets, (iii) access to assets is permitted only in accordance with management's general or specific authorization, and (iv) the recorded accounting for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any material differences.

(x) Neither the Company nor any of its subsidiaries has violated or is currently in violation of any provisions of: (a) any federal or state environmental law, (b) Employee Retirement Income Security Act of 1974, as amended, including the regulations and published interpretations thereunder ("ERISA"), (c) the Bank Secrecy Act, as amended, (d) the Money Laundering Control Act of 1986, as amended, (e) the Foreign Corrupt Practices Act, or (f) the Uniting and Strengthening of America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism ("USA Patriot Act") Act of 2001, and the rules and regulations promulgated under any such law, or any successor law.

(xi) The Company and its subsidiaries (A) have paid, as applicable, all federal, state, local and foreign taxes for which it is liable and has furnished all information returns it is required to furnish pursuant to the Internal Revenue Code of 1986, as amended, (B) have established adequate reserves for such taxes which are not due and payable and (C) does not have any tax deficiency or claims outstanding, proposed or assessed against it.

(xii) All offers and sales of securities of the Company issued during the three year period prior to the date hereof were at all relevant times duly registered or exempt from the registration requirements of the Act (or applicable foreign securities laws) and the rules and regulations thereunder and were duly registered or the subject of an available exemption from the registration requirements of the applicable United States' state securities or blue sky laws. Except as disclosed in the Offering Documents or SEC Reports, the Company has not, directly or indirectly, solicited any offer to buy or offered to sell any securities during the twelve-month period ending on the date hereof which, to the knowledge of the Company, would be integrated with the Offering.

7. Covenants of the Company.

The Company covenants that it will:

(a) Deliver without charge to the Selling Agent such number of copies of the Offering Documents and any supplement or amendment thereto as may reasonably be requested by the Selling Agent.

(b) Notify you promptly of rejection of any subscription. The Company shall not accept subscriptions from, or make sales of Securities to, any Subscribers who are not, to the Company's knowledge, accredited investors.

(c) The Company shall cause, at its cost and expense, all "blue sky" filings related to the Offering and required by applicable law to be made in due and proper form and substance and in a timely manner as required under the laws of the states in which Securities are sold ("Blue Sky Filings"). In addition, the Company shall cause, at its cost and expense, a Form D related to the Offering to be filed with the Securities and Exchange Commission ("SEC") in due and proper form and substance and in a timely manner. The Company shall deliver true and correct copies of all Blue Sky Filings and the Form D, as filed with the SEC, to the Selling Agent within 5 days of the final closing date.

(d) The Company shall be responsible for the costs of its own legal counsel.

(e) Following the final Closing, and not prior to the final closing, the Company may issue a press release disclosing the closing of the Offering and the services of Selling Agent as a selling agent. Nothing contained in this Section 7(e) shall prevent the Company from making any required disclosures under the rules and regulations of the SEC.

8. Conditions of Closing.

The obligations of the Selling Agent pursuant to this Agreement shall be subject, in its discretion, to the continuing accuracy of the representations and warranties of the Company contained herein and in each certificate and document contemplated under this Agreement to be delivered to the Selling Agent, as of the date hereof and as of the Closing Date, with respect to the performance by the Company of its obligations hereunder, and to the following conditions:

(a) At the Closing, the Selling Agent, the investors and the Company shall have executed Offering Documents in form and substance reasonably acceptable to them.

(b) All proceedings taken in connection with the issuance, sale, and delivery of the Securities shall be satisfactory in form and substance to Selling Agent, the Subscribers and the Company.

9. Termination.

This Agreement may be terminated by the Selling Agent (i) at anytime in the event the Selling Agent has determined, in good faith, that the Offering Documents fail to contain a material fact required to be stated therein or necessary to make the statements therein not misleading or (ii) upon five (5) business days written notice. The Company may terminate this Agreement for any reason upon giving five (5) business days' prior notice thereof to Selling Agent, provided, however, that in the event that Selling Agent does not perform any obligation under this Agreement or any representation

and warranty of Selling Agent hereunder is incomplete or inaccurate in any respect, this Agreement and all of the obligations of the Company hereunder may be immediately terminated by the Company by notice thereof to Selling Agent. Notwithstanding anything to the contrary herein, the Selling Agent shall be entitled to all compensation otherwise payable to it pursuant to Section 5 hereunder with respect to any subscription accepted by the Company.

10. Indemnification and Contribution.

(a) The Company agrees to indemnify and hold harmless the Selling Agent, its officers, directors, partners, employees, agents, and counsel, and each person, if any, who controls the Selling Agent within the meaning of Section 15 of the Act or Section 20(a) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), against any and all loss, liability, claim, damage, and expense whatsoever (which shall include, for all purposes of this Section 10, but not be limited to, attorneys’ fees and any and all expense whatsoever incurred in investigating, preparing, or defending against any litigation, commenced or threatened, or any claim whatsoever and any and all amounts paid in settlement of any claim or litigation) as and when incurred arising out of, based upon, or in connection with (i) any untrue statement or alleged untrue statement of a material fact contained in the Offering Documents, or any omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, unless such statement or omission was made in reliance upon and in conformity with written information furnished to the Company as stated in Section 10(b) with respect to the Selling Agent expressly for inclusion in the Offering Documents or (ii) any breach of any representation, warranty, covenant, or agreement of the Company contained in this Agreement. The foregoing agreement to indemnify shall be in addition to any liability the Company may otherwise have, including liabilities arising under this Agreement.

If any action is brought against the Selling Agent or any of its officers, directors, partners, employees, agent, or counsel, or any controlling persons of the Selling Agent (an “indemnified party”), in respect of which indemnify may be sought against the Company pursuant to the foregoing paragraph, such indemnified party or parties shall promptly notify the Company (the “indemnifying party”) in writing of the institution of such action (but the failure so to notify shall not relieve the indemnifying party from any liability it may have other than pursuant to this Section 10(a)) and the indemnifying party shall promptly assume the defense of such action, including the employment of counsel (reasonably satisfactory to such indemnified party or parties) and payment of expenses. Such indemnified party shall have the right to employ its own counsel in any such case, but the fees and expense of such counsel shall be at the expense of such indemnified party unless the employment of such counsel shall have been authorized in writing by the indemnifying party in connection with the defense of such action or the indemnifying party shall not have promptly employed counsel satisfactory to such indemnified party or parties to have charge of the defense of such action or such indemnified party or parties shall have reasonably concluded that there may be one or more legal defenses available to it or them or to other indemnified parties which are different from or additional to those available to one or more of the indemnifying parties, in any of which events such reasonable fees and expenses of one such counsel shall be borne by the indemnifying party and the indemnifying party shall not have the right to direct the defense of such action on behalf of the indemnified party or parties. Anything in this paragraph to the contrary notwithstanding, the indemnifying party shall not be liable for any settlement of any such claim or action effected without its written consent. The Company agrees to promptly notify the Selling Agent of the commencement of any litigation or

proceedings against the Company or any of its officers or directors in connection with the sale of the Securities or the Offering Documents.

(b) The Selling Agent agrees to indemnify and hold harmless the Company, its officers, directors, employees, agents, and counsel, and each other person, if any, who controls the Company within the meaning of Section 15 of the Act or Section 20(a) of the Exchange Act, to the same extent as the foregoing indemnity from the Company to the Selling Agent in Section 10(a), with respect to any and all loss, liability, claim, damage, and expense whatsoever (which shall include, for all purposes of this Section 10, but not be limited to, attorneys' fees and any and all expense whatsoever incurred in investigating, preparing, or defending against any litigation, commenced or threatened, or any claim whatsoever and any and all amounts paid in settlement of any claim or litigation) as and when incurred arising out of, based upon, or in connection with (i) statements or omissions, if any, made in the Offering Documents in reliance upon and in conformity with written information furnished to the Company with respect to the Selling Agent expressly for inclusion in the Offering Documents, and (ii) or any breach of any representation, warranty, covenant or agreement of the Selling Agent contained in this Agreement. If any action shall be brought against the Company or any other person so indemnified based on the Offering Documents and in respect of which indemnity may be sought against the Selling Agent pursuant to this Section, the Selling Agent shall have the rights and duties given to the indemnifying party, and the Company and each other person so indemnified shall have the rights and duties given to the indemnified parties, by the provisions of Section 10(a) hereof.

(c) To provide for just and equitable contribution, if (i) an indemnified party makes a claim for indemnification pursuant to Section 10(a) or 10(b) hereof but it is found in a final judicial determination, not subject to further appeal, that such indemnification may not be enforced in such case, even though this Agreement expressly provides for indemnification in such case, or (ii) any indemnified or indemnifying party seeks contribution under the Act, the Exchange Act, or otherwise, then the Company (including for this purpose any contribution made by or on behalf of any officer, director, employee, agent, or counsel of the Company, or any controlling person of the Company), on the one hand, and the Selling Agent (including for this purpose any contribution by or on behalf of an indemnified party), on the other hand, shall contribute to the losses, liabilities, claims, damages, and expenses whatsoever to which any of them may be subject, in such proportions as are appropriate to reflect the relative benefits received by the Company, on the one hand, and the Selling Agent, on the other hand; provided, however, that if applicable law does not permit such allocation, then other relevant equitable considerations such as the relative fault of the Company and the Selling Agent in connection with the facts which resulted in such losses, liabilities, claims, damages, and expenses shall also be considered. The relative benefits received by the Company, on the one hand, and the Selling Agent, on the other hand, shall be deemed to be in the same proportion as (x) the total proceeds from the Offering (net of compensation payable to the Placement Agent pursuant to Section 5(a) hereof but before deducting expenses) received by the Company, and (y) the compensation received by the Selling Agent pursuant to Section 5(a) hereof.

The relative fault, in the case of an untrue statement, alleged untrue statement, omission, or alleged omission, shall be determined by, among other things, whether such statement, alleged statement, omission, or alleged omission relates to information supplied by the Company or by the Selling Agent, and the parties' relative intent, knowledge, access to information, and opportunity to

correct or prevent such statement, alleged statement, omission, or alleged omission. The Company and the Selling Agent agree that it would be unjust and inequitable if the respective obligations of the Company and the Selling Agent for contribution were determined by pro rata or per capita allocation of the aggregate losses, liabilities, claims, damages, and expenses or by any other method of allocation that does not reflect the equitable considerations referred to in this Section 10(c). In no case shall the Selling Agent be responsible for a portion of the contribution obligation in excess of the compensation received by it pursuant to Section 5(a) hereof. No person guilty of a fraudulent misrepresentation shall be entitled to contribution from any person who is not guilty of such fraudulent misrepresentation. For purposes of this Section 10(c), each person, if any, who controls the Selling Agent within the meaning of Section 15 of the Act or Section 20(a) of the Exchange Act and each officer, director, partner, employee, agent, and counsel of the Selling Agent, shall have the same rights to contribution as the Selling Agent, and each person, if any, who controls the Company within the meaning of Section 15 of the Act or Section 20(a) of the Exchange Act and each officer, director, employee, agent, and counsel of the Company, shall have the same rights to contribution as the Company, subject in each case to the provisions of this Section 10(c). Anything in this Section 10(c) to the contrary notwithstanding, no party shall be liable for contribution with respect to the settlement of any claim or action effected without its written consent.

11. Non-Solicitation.

The Company agrees that, for a period of six (6) months from the date hereof (the “**Non-Solicitation Period**”), it shall not solicit any offer to buy from or offer to sell to any of the persons (individuals and/or entities) introduced to the Company by the Selling Agent in connection with the Offering (whether or not such persons invest in the Offering), any securities of the Company or of any affiliate, with any selling agent, placement agent, broker or dealer, other than Selling Agent. In the event that during the Non-Solicitation Period, the Company or any of its affiliates, directly or indirectly, solicits, offers to buy from or offers to sell to any such persons any such securities from any other, placement agent, securities broker or dealer or selling agent other than Selling Agent, the Company shall pay to the Selling Agent the same compensation payable to the Selling Agent as described under Section 5 hereof. Notwithstanding the foregoing, during the Non-Solicitation Period, the Company shall not give the names of the subscribers to any other broker dealer or selling or placement agent; provided, however, it shall not be a violation of this Section if the Company includes the names of the persons who decide to invest in the Offering in any public filing made by the Company including but not limited to filings that the Company makes with SEC. Upon receipt of written request by the Selling Agent, the Company shall promptly deliver to the Selling Agent the names of any persons with whom the Company completes a subsequent financing within 6 months from the date of the Closing Date. This Section 11 shall survive termination of this Agreement.

12. Representations and Agreements to Survive Delivery.

All representations, warranties, covenants, and agreements contained in this Agreement shall be deemed to be representations, warranties, covenants, and agreements at the Closing Date and, such representations and warranties shall remain operative and in full force and effect regardless of any investigation made by or on behalf of the Selling Agent or any indemnified person, or by or on behalf of the Company or any person or entity which is entitled to be indemnified under Section 10, and shall survive for a period of two (2) years from the date hereof. In addition, notwithstanding the foregoing

and any election hereunder or any termination of this Agreement, and whether or not the terms of this Agreement are otherwise carried out, the provisions of Section 10 shall survive for a period of five (5) years from the date hereof.

13. Notices.

All communications hereunder, except as may be otherwise specifically provided herein, shall be in writing and shall be either (i) mailed by first class mail in which case delivery shall be deemed to be made three days following deposit in the United States mail; or (ii) sent by overnight courier service in which case delivery shall be deemed to be made upon delivery, to: [NAME OF SELLING AGENT] [ADDRESS], Attention: [SELLING AGENT CONTACT]; and Beacon Enterprise Solutions Group, Inc., 1961 Bishop Lane, Louisville, Kentucky 40218, Attention: Bruce Widener, CEO.

14. Parties.

This Agreement shall inure solely to the benefit of, and shall be binding upon, the Selling Agent and the Company and the persons and entities referred to in Section 10 who are entitled to indemnification or contribution, and their respective successors, legal representatives, and assigns (which shall not include any purchaser, as such, of Securities), and no other person shall have or be construed to have any legal or equitable right remedy, or claim under or in respect of or by virtue of this Agreement or any provision herein contained.

15. Construction; Governing Law; Submission to Jurisdiction.

This Agreement shall be construed in accordance with the laws of the State of New York, without giving effect to conflict of laws. Any legal suit, action or proceeding arising out of or relating to this Subscription Agreement or the transactions contemplated hereby shall be instituted exclusively in New York Supreme Court, County of New York, or in the United States District Court for the Southern District of New York. The parties hereto hereby: (i) waives any objection which they may now have or hereafter have to the venue of any such suit, action or proceeding, and (ii) irrevocably consents to the jurisdiction of the New York Supreme Court, County of New York, and the United States District Court for the Southern District of New York in any such suit, action or proceeding. The parties further agree to accept and acknowledge service of any and all process which may be served in any such suit, action or proceeding in the New York Supreme Court, County of New York, or in the United States District Court for the Southern District of New York and agree that service of process upon a party mailed by certified mail to such party's address shall be deemed in every respect effective service of process upon such party in any such suit, action or proceeding.

17. No Fiduciary Relationship.

The Company acknowledges and agrees that: (i) the offering and sale of the Securities pursuant to this Agreement is an arm's-length commercial transaction between the Company and the Prospective Investors; (ii) in connection therewith and with the process leading to the Offering, the Selling Agent is acting solely as a principal and not the agent or fiduciary of the Company; (iii) the Selling Agent has not assumed an advisory or fiduciary responsibility in favor of the Company with

respect to the Offering contemplated hereby or the process leading thereto, including any negotiation related to the pricing of the Securities; and (iv) the Company has consulted its own legal and financial advisors to the extent it has deemed appropriate in connection with this Agreement and the Offering.

[signature page appears next]

18. Counterparts.

This Agreement may be executed in counterparts, each of which shall constitute an original and all of which, when taken together, shall constitute one agreement. In the event that any signature is delivered by facsimile transmission or by e-mail delivery of a “.pdf” format data file, such signature shall create a valid and binding obligation of the party executing (or on whose behalf such signature is executed) with the same force and effect as if such facsimile or “.pdf” signature page were an original thereof. This Agreement shall become effective when one or more counterparts has been signed and delivered by each of the parties hereto.

If the foregoing correctly sets forth the understanding between us, please so indicate in the space provided below for that purpose, whereupon this agreement shall constitute a binding agreement between us.

Very truly yours,

BEACON ENTERPRISE SOLUTIONS GROUP, INC

By: /s/ Bruce Widener

Name: Bruce Widener

Title: CEO

Accepted as of the date
first above written:

[SELLING AGENT]

By: _____

Name: [CONTACT NAME]

Title: [CONTACT TITLE]

Subsidiaries of Registrant.

Beacon Enterprise Solutions Group, Inc., Indiana corporation, registered to do business in Kentucky.

BH Acquisition Sub, Inc., Nevada corporation, registered to do business in Ohio. BH Acquisition Sub, Inc. is a subsidiary of Beacon Enterprise Solutions Group, Inc., Indiana corporation.

BESG Ireland Ltd., a company formed under the laws of Ireland, is a wholly owned subsidiary of Beacon Enterprise Solutions Group, Inc.

Beacon Solutions AG, a company formed under the laws of Switzerland, is a wholly owned subsidiary of BESG Ireland Ltd.

**CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Bruce Widener, certify that:

1. I have reviewed this annual report on Form 10-K 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 statements made, in light of the circumstances under which such 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 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we 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 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 quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter 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 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 the registrant's board of directors:
 - a) All significant deficiencies and material weaknesses in the design or operation of internal controls 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 controls over financial reporting.

Date: December 29, 2009

Signed: /s/ Bruce Widener
Bruce Widener
Chief Executive Officer and Chairman of the Board

Signed: /s/ Robert Mohr
Robert Mohr
Chief Accounting Officer and Principal Financial Officer

**CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Beacon Enterprise Solutions Group, Inc. (the "Company") on Form 10-K for the twelve months ended September 30, 2009 as filed with the Securities and Exchange Commission on the date therein specified (the "Report"), the undersigned Chief Executive Officer of the Company, certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of his individual knowledge and belief:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: December 29, 2009

Signed: /s/ Bruce Widener
Bruce Widener
Chief Executive Officer and Chairman of the Board

The foregoing certification is being furnished pursuant to 18 U.S.C. Section 1350. It is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, regardless of any general incorporation language in said filing.

**CERTIFICATIONS OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Beacon Enterprise Solutions Group, Inc. (the "Company") on Form 10-K for the twelve months ended September 30, 2009 as filed with the Securities and Exchange Commission on the date therein specified (the "Report"), the undersigned Principal Financial Officer of the Company, certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of his individual knowledge and belief:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: December 29, 2009

Signed: /s/ Robert Mohr
Robert Mohr
Chief Accounting Officer and Principal Financial Officer

The foregoing certification is being furnished pursuant to 18 U.S.C. Section 1350. It is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, regardless of any general incorporation language in said filing.