

Blue Earth, Inc.
Form 10-Q
May 13, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

**QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2013

OR

**TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**

For the transition period from _____ to _____

COMMISSION FILE NUMBER 0-54669

BLUE EARTH, Inc.

(Exact Name of small business issuer as specified in its charter)

Nevada
(State or other jurisdiction of
incorporation or organization)

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

2298 Horizon Ridge Parkway, Suite 205, Henderson, NV 89052

(Address of principal executive offices) (Zip Code)

Registrant's telephone Number: **(702) 263-1808**

N/A

(former name, former address and former fiscal year if changed since last report)

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

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

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input checked="" type="checkbox"/>
		(Do not check if a smaller reporting company)	

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

As of May 7, 2013 the issuer had 23,202,906 outstanding shares of Common Stock.

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PART I**ITEM 1. FINANCIAL STATEMENTS****BLUE EARTH, INC. AND SUBSIDIARIES**

Consolidated Balance Sheets

	<u>ASSETS</u>	March 31, 2013 (unaudited)	December 31, 2012
CURRENT ASSETS			
Cash		\$ 458,483	\$ 659,009
Accounts receivable, net		1,771,799	1,749,827
Costs and revenues in excess of billings		2,485,197	1,724,543
Inventory, net		325,445	221,548
Construction in progress		707,043	706,043
Prepaid expenses and deposits		860,296	921,917
Total Current Assets		6,608,263	5,982,887
PROPERTY AND EQUIPMENT, net		642,241	661,156
OTHER ASSETS			
Deposits		52,408	52,408
Contracts and franchise, net		7,670,713	8,250,495
Total Other Assets		7,723,121	8,302,903
TOTAL ASSETS		\$ 14,973,625	\$ 14,946,946
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>			
CURRENT LIABILITIES			
Accounts payable		\$ 2,438,885	\$ 2,088,459
Current portion of notes payable		475,690	503,386
Related party payables		1,375,978	1,976,995
Billings in excess of revenues		773,636	674,971
Deferred revenues		17,004	17,004
Accrued expenses		435,122	423,256
Payroll expenses payable		498,165	534,846
Preferred dividends payable		573,441	440,287
Line of credit payable		1,500,000	-
Total Current Liabilities		8,087,921	6,659,204
LONG TERM LIABILITIES			
Long term portion of notes payable		-	-
Total Liabilities		8,087,921	6,659,204
STOCKHOLDERS' EQUITY			
Preferred stock; 25,000,000 shares authorized at \$0.001 par value, 498,402 and 510,152 shares issued and outstanding, respectively		498	510
Common stock; 100,000,000 shares authorized			

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at \$0.001 par value, 21,816,868 and 20,882,549

shares issued and outstanding, respectively	21,817	20,883
Additional paid-in capital	42,955,921	42,332,298
Accumulated deficit	(36,092,532)	(34,065,949)
Total Stockholders' Equity	6,885,704	8,287,742
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 14,973,625	\$ 14,946,946

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

BLUE EARTH, INC. AND SUBSIDIARIESConsolidated Statements of Operations
(unaudited)

	For the Three Months Ended March 31,	
	2013	2012
REVENUES	\$ 2,872,234	\$ 1,960,740
COST OF SALES	1,993,792	1,305,257
GROSS PROFIT	878,442	655,483
OPERATING EXPENSES		
Depreciation and amortization	597,860	630,489
General and administrative	2,074,128	2,045,894
Total Operating Expenses	2,671,988	2,676,383
LOSS FROM OPERATIONS	(1,793,546)	(2,020,900)
OTHER INCOME (EXPENSE)		
Gain (loss) on derivative valuation	-	(173,993)
Interest expense	(72,723)	(7,108)
Loss on settlement of debt	(11,148)	-
TOTAL OTHER INCOME (EXPENSE)	(83,871)	(181,101)
LOSS BEFORE INCOME TAXES	(1,877,417)	(2,202,001)
INCOME TAX EXPENSE	-	-
NET LOSS	\$ (1,877,417)	\$ (2,202,001)
PREFERRED DIVIDENDS	(149,166)	(108,301)
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$ (2,026,583)	\$ (2,310,302)
BASIC AND DILUTED LOSS PER SHARE	\$ (0.10)	\$ (0.15)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING BASIC AND DILUTED	21,302,469	15,109,401

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

BLUE EARTH, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(unaudited)

	For the Three Months Ended March 31,	
	2013	2012
OPERATING ACTIVITIES		
Net loss	\$ (1,877,417)	\$ (2,202,001)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock option and stock warrants issued for services	42,217	246,736
(Gain) loss on derivative valuation	-	173,993
Loss on settlement of debt	11,148	-
Stock issued for services	8,201	27,651
Depreciation and amortization	598,697	630,489
Amortization of debt discount	20,917	-
Changes in operating assets and liabilities:		
Accounts receivable and billings in excess	(782,626)	(213,965)
Inventory	(103,897)	235,988
Construction in progress	(1,000)	-
Prepaid expenses and deposits	161,620	45,069
Accrued dividends payable	-	37,098
Accounts payable and accrued expenses	462,718	(183,498)
Net Cash Used in Operating Activities	(1,459,422)	(1,276,636)
INVESTING ACTIVITIES		
Purchase of property and equipment	-	-
Net Cash Used in Investing Activities	-	-
FINANCING ACTIVITIES		
Proceeds from warrants exercised	281,450	-
Proceeds from related party loans	290,000	-
Proceeds from preferred stock	-	846,000
Proceeds from line of credit	1,500,000	-
Proceeds from notes payable	-	-
Repayment of notes payable	(62,554)	(28,486)
Repayment of related party loans	(750,000)	(11,059)
Net Cash Provided by Financing Activities	1,258,896	806,455
NET INCREASE (DECREASE) IN CASH	(200,526)	(470,181)
CASH AT BEGINNING OF PERIOD	659,009	527,108

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CASH AT END OF PERIOD	\$	458,483	\$	56,927
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The accompanying notes are an integral part of these consolidated financial statements.

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

	For the Three Months Ended March 31,	
	2013	2012
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
CASH PAID FOR:		
Interest	\$ 30,518	\$ 7,108
Income taxes	-	-
NON CASH FINANCING ACTIVITIES:		
Common stock issued upon conversion of debt	\$ 152,165	\$ -
Common stock issued upon conversion of preferred stock	16,011	-
Common stock issued for debt discount	24,500	-
Common stock issued for line of credit fee	100,000	-

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

BLUE EARTH, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated

Financial Statements

(Unaudited)

NOTE 1 - CONDENSED FINANCIAL STATEMENTS

The accompanying financial statements have been prepared by the Company without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations, and cash flows at March 31, 2013 and 2012, and for all periods presented herein, have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. The results of operations for the three-month periods ended March 31, 2013 and 2012 are not necessarily indicative of the operating results for the full year.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Inventory

Inventory is recorded at the lower of cost or market (net realizable value) using the average cost method. The inventory on hand as of March 31, 2013 consists of motors, controllers, miscellaneous refrigeration parts and raw gasket material at costs of \$325,445. The Company does not have any work in progress.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets

and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Going Concern

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

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

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

Recent Accounting Pronouncements

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

NOTE 3 - SIGNIFICANT EVENTS

Issuances of Common Stock

On January 7, 2013 the Company issued 3,000 shares of its common stock to consultants for services valued at \$1.10 per share. On January 14, 2013 the Company issued 45,000 shares upon the exercise of warrants per the terms of the employment agreement. On January 16, 2013 the Company issued 11,200 shares of common stock upon the conversion of 1,000 shares of its Series B preferred stock and accrued dividends of \$1,380. On January 22, 2013 the Company issued 100,000 shares upon the exercise of warrants per the terms of the employment agreement. On January 23, 2013 the Company issued 28,000 shares of common stock upon the conversion of 2,500 shares of its Series B preferred stock and accrued dividends of \$3,270. On January 30, 2013 the Company issued 70,000 shares of common stock upon the conversion of 6,250 shares of its Series B preferred stock and accrued dividends of \$8,745.

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On February 5, 2013 the Company issued 162,162 shares of its common stock to consultants for services valued at \$0.92 per share. On February 8, 2013 the Company issued 11,200 shares of common stock upon the conversion of 1,000 shares of its Series B preferred

BLUE EARTH, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated

Financial Statements

(Unaudited)

NOTE 3 - SIGNIFICANT EVENTS (CONTINUED)

stock and accrued dividends of \$1,415. On February 22, 2013 the Company issued 92,115 shares of its common stock as a commitment fee for the Company's line of credit valued at \$1.09 per share. On February 27, 2013 the Company issued 50,000 shares upon the exercise of warrants per the terms of the consulting agreement. On March 8, 2013 the Company issued 11,200 shares of common stock upon the conversion of 1,000 shares of its Series B preferred stock and accrued dividends of \$1,212. On March 12, 2013 the Company issued 4,854 shares of its common stock to consultants for services valued at \$1.01 per share. On March 20, 2013 the Company issued 165,000 shares upon the exercise of warrants per the terms of the employment agreement. On March 22, 2013 the Company issued 25,000 shares as an incentive to a lender to extend the expiration date of an outstanding note payable. On March 27, 2013 the Company issued 155,588 shares upon the conversion of related party debt of \$152,165.

Issuance of Preferred Stock

During the three months ended March 31, 2013 the Company issued no shares of preferred stock.

Credit Line Payable

During the three months ended March 31, 2013 the Company received \$1,500,000 in proceeds from a line of credit. The line of credit is for up to \$10,000,000 subject to approval of the use of proceeds by the lender. The line of credit accrues interest at 12% per annum and is secured by the Company's assets.

Related Party Notes Payable

During the three months ended March 31, 2013 the Company received \$290,000 in proceeds from a demand note payable from a director of the Company. The Company also repaid \$750,000 of demand notes to the director during the three months ended March 31, 2013. The demand notes payable accrues interest at 12% per annum and are unsecured.

NOTE 4 - STOCK PURCHASE WARRANTS AND OPTIONS

A summary of the Company's option activity during the periods ended March 31, 2013 and December 31, 2012 is presented below:

	No. of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Balance Outstanding, December 31, 2011	607,791	\$ 1.63	9.8	\$ 1,018,089
Granted	52,720	1.37	10	
Granted	10,000	1.23	10	
Granted	175,000	1.27	10	
Granted	135,250	1.72	10	
Exercised	(20,000)	0.90	9.8	
Balance Outstanding, December 31, 2012	960,761	1.58	8.2	\$1,520,695
Granted	---		--	
Forfeited	---		--	
Exercised	---		--	
Balance Outstanding, March 31, 2013	960,761	\$ 1.58	8	\$1,520,695
Exercisable, March 31, 2013	386,691	\$ 1.58	8	\$ 612,874

BLUE EARTH, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated

Financial Statements

(Unaudited)

NOTE 4 - STOCK PURCHASE WARRANTS AND OPTIONS (Continued)

A summary of the Company's warrant activity during the periods ended March 31, 2013 and December 31, 2012 is presented below:

	No. of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Balance Outstanding, December 31, 2011	16,020,366	\$ 2.53	2.78	\$ 33,801,473
Granted	900,000	1.16	5.00	
Granted	700,000	1.33	5.00	
Granted	660,000	0.01	8.00	
Granted	75,000	0.10	10.00	
Granted	2,400,000	1.00	5.00	
Granted	1,415,260	3.00	1.00	
Granted	1,412,500	0.01	10.00	
Granted	146,750	1.75	5.00	
Forfeited	(3,495,000)	(1.96)	--	
Exercised	(427,000)	(0.47)	(6.31)	
Balance Outstanding, December 31, 2012	19,807,876	1.63	7.04	32,194,216
Granted	--	--	--	
Exercised	(602,162)	(0.64)	--	
Forfeited	--	--	--	
Balance Outstanding March 31, 2013	19,205,714	\$ 1.66	6.96	\$ 31,860,604
Exercisable, March 31, 2013	15,245,714	\$ 1.86	6.96	\$ 28,292,104

NOTE 5 - SUBSEQUENT EVENTS

Subsequent to March 31, 2013, the Company issued 88,067 shares of its common stock for services valued at \$95,435. The Company also issued 39,200 shares of its common stock upon the conversion of 3,500 preferred shares and accrued dividends of \$4,752. The Company also issued 1,258,771 shares of its common stock upon the exercise of warrants for cash proceeds of \$1,120,971.

On April 15, 2013, the Company announced that it had signed a binding LOA to acquire an EPCM company (engineering, procurement, construction management company) and an affiliated renewal energy company that specialize in the combined heat and power (CHP) alternative energy space.

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

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

Forward-Looking Statements

The information in this report contains forward-looking statements. All statements other than statements of historical fact made in this report are forward looking. In particular, the statements herein regarding industry prospects and future results of operations or financial position are forward-looking statements. These forward-looking statements can be identified by the use of words such as believes, estimates, could, possibly, probably, anticipates, expects, may, will, or should or other variations or similar words. No assurances can be given that the future results anticipated by the forward-looking statements will be achieved. Forward-looking statements reflect management's current expectations and are inherently uncertain. Our actual results may differ significantly from management's expectations.

The following discussion and analysis should be read in conjunction with our unaudited condensed consolidated financial statements, included herewith. This discussion should not be construed to imply that the results discussed herein will necessarily continue into the future, or that any conclusion reached herein will necessarily be indicative of actual operating results in the future. Such discussion represents only the best present assessment of our management.

Company Overview

Blue Earth, Inc. and subsidiaries (the Company) is a comprehensive provider of energy efficiency and alternative/renewable energy solutions for facilities primarily located in the west coast states. In addition, strategic acquisitions of energy management services and alternative/renewable energy companies have been and are expected to continue to be an integral part of our development. The Company provides energy efficiency services including energy management, energy audits and reducing energy consumption through retrofits of lighting, refrigeration and HVAC for small commercial business. The Company develops, designs, builds and implements technologies such as solar, combined heat and power (CHP) and fuel cells for alternative and renewable energy projects. The Company also finances renewable and alternative energy projects through industry relationships.

We also focus on acquiring companies and innovative technologies that serve the multi billion dollar energy efficiency services and renewable energy market sectors. The targeted companies provide a variety of energy services that enable customers to reduce energy consumption, lower their generating capacity and maintenance costs and realize environmental benefits. The targeted technologies typically include various measures designed for a specific customer or facility in our target market of small commercial businesses to improve the efficiency of building

systems, such as refrigeration, lighting and heating, ventilation and air conditioning.

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

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

Blue Earth entered into a Purchase and Sale Agreement (the "PSA") dated as of July 26, 2012, with White Horse Energy, LLC. The PSA provides for the Company to acquire 100% of the issued and outstanding limited liability company interests in Waianae PV-02, LLC, a Hawaii limited liability company (the "SPE"). The SPE is the owner of certain rights to construct an approximately 497 kilowatt photovoltaic solar energy system in Waianae, Hawaii. Construction began in the third quarter of 2012 and is expected to be completed no later than the second quarter of 2013. The project is valued at approximately \$4 million and consists of a solar PV system mounted on the ground.

On August 3, 2012, Blue Earth announced that it acquired the exclusive rights to construct seven different solar PV projects totaling approximately 3.5 megawatts DC in Hawaii. The projects are valued at approximately \$15 million. The construction of the Sunvalley solar PV projects located in California, valued at approximately \$4 million, began in the third quarter and are expected to be completed no later than the second quarter of 2013. The Sunvalley Solar projects have signed Engineer, Procure and Construct (EPC) agreements with the owners of the businesses for each of the respective construction sites. All of the customers have agreed to assign the 1603 Grant and Utility Incentives, including their own cash to pay for the solar PV systems. All of the projects are 1603 Grant eligible.

Results of Operations

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

Three Months Ended March 31, 2013 Compared with Three Months Ended March 31, 2012 (Actual)

Revenues

The Company recognized \$2,872,234 of revenue for the three months ended March 31, 2013, as compared to \$1,960,740 in revenues for the three months ended March 31, 2012. The current revenues represent sales from the Company's wholly-owned subsidiaries Xnergy, Inc. (\$2,190,820) and Castrovilla, Inc. (\$681,414). The prior revenues represent sales from the Company's wholly-owned subsidiaries Xnergy, Inc. (\$910,470) and Castrovilla, Inc. (\$1,050,270). Castrovilla, Inc.'s sales include retrofitting refrigeration equipment with energy management systems and gasket sales. Xnergy's are from installation of alternative energy systems and installation and maintenance of HVAC systems. Castrovilla's revenues declined due to a decrease in subsidies for retrofitting equipment. Xnergy's revenues increased due to the acquisition of contracts to build solar generation projects in California and Hawaii.

Cost of Sales and Gross Profit

Cost of sales for the three months ended March 31, 2013 were \$1,993,792 resulting in a gross profit of \$878,442 or 30.6% of revenues. Castrovilla had a gross profit of \$394,660 or 57.9% compared to \$483,782 or 22.1% for Xnergy. By comparison, during 2011 we had a cost of sales of \$1,305,257 with a gross profit of \$655,483 or 33.4%. Castrovilla had a gross profit of \$404,916 or 38.6% compared to \$250,567 or 27.5% for Xnergy.

Operating Expenses

General and Administrative Expenses

General and administrative expenses were \$2,074,128 for the three months ended March 31, 2013 as compared to \$2,045,894 for the three months ended March 31, 2012, an increase of \$28,234 or 1.3%. In 2013 approximately \$652,180 (31.5%) of the expenses were from Castrovilla and \$722,645 (34.8%) were from Xnergy. The balance of \$698,466 (33.7%) for 2012 was corporate administrative expense. Approximately \$823,052 (39.7%) of the general and administrative expenses was for payroll costs and \$320,762 (15.5%) was for professional fees in 2013.

In 2012 approximately \$685,471 (33.5%) of the expenses were from Castrovilla and \$774,157 (37.8%) were from Xnergy. The balance of \$586,266 (28.7%) for 2012 was corporate administrative expense. Approximately \$978,393 (47.8%) of the general and administrative expenses was for payroll costs and \$167,598 (8.2%) was for professional fees in 2012.

In 2013, general and administrative expenses include stock compensation expense of \$50,418 (2.4%) compared to \$274,387 (13.4%) in 2012. We recorded depreciation and amortization expense of \$598,697 in 2013 compared to \$630,489 in 2012 due to the amortization of the purchase price of Castrovilla and Xnergy.

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

Other Income (Expense)

Total other income (expense) for the three months ended March 31, 2013 was \$(83,871) compared to \$(181,101) for the three months ended March 31, 2012. The decrease was primarily attributable to loss of \$-0- due to the change in the fair value of the warrant derivative liability in 2013 compared to expense of \$(173,993) in 2012. The fair value is recalculated quarterly based primarily on the remaining term of the warrants which expired on December 31, 2012 and stock price volatility.

Net Loss

Net loss was \$1,877,417 for the three months ended March 31, 2013 as compared with a net loss of \$2,202,001 for the three months ended March 31, 2012, a decrease of \$324,584. The decrease is attributable primarily to increased revenues and gross margin from the solar projects in California and Hawaii. The net loss attributed to common shareholders was \$2,026,583 in 2013 compared to \$2,310,302 due to the dividends accrued on the preferred stock. The net loss translates to \$0.10 per share in 2013 compared to \$0.15 in 2012.

Liquidity and Capital Resources as of March 31, 2013 compared with December 31, 2012

Net cash used in operating activities during the three months ended March 31, 2013 totaled \$1,459,422 and resulted primarily from the operating expenses associated with the parent company related to carrying out our business plan. In addition to a net loss of \$1,877,417, we incurred an increase in accounts receivable and billings in excess of \$782,626, that was partially offset by common stock and options issued for services expensed at \$50,418, depreciation and amortization of \$598,697 and an increase in accounts payable and accrued expenses of \$462,718. Net cash used in continuing operations during the three months ended March 31, 2012 totaled \$1,276,636 and resulted primarily from the operating expenses associated with the parent company related to carrying out our business plan. In addition to a net loss of \$2,202,001, we incurred an increase in accounts receivables of \$213,965 and a decrease in accounts payable and accrued expenses of \$183,498 that was partially offered by common stock and options issued for services expensed at \$274,387, depreciation and amortization of \$630,489 and a decrease in inventory of \$235,988. We expect to continue with a negative cash flow from operations for the foreseeable future as we continue to build our business.

Net cash used in investing activities during the three months ended March 31, 2013 totaled \$-0-. Net cash used in investing activities during the three months ended March 31, 2012 also totaled \$-0-.

Net cash provided by financing activities during the three months ended March 31, 2013 totaled \$1,258,896 and resulted from \$1,500,000 of gross proceeds from the line of credit, \$281,450 from the exercise of warrants and \$290,000 of gross proceeds from related party notes payable. The cash inflows were offset by principal payments on notes payable of \$62,554 and notes payable to related parties of \$750,000. Net cash provided by financing activities during the three months ended March 31, 2012 totaled \$806,455 and resulted from \$846,000 of gross proceeds from the sale of preferred stock offset by payments on notes payable of \$39,545.

At March 31, 2013, we had a working capital deficit of \$1,479,658 including \$458,483 in cash and cash equivalents compared with a working capital deficit of \$676,317 at December 31, 2012. We anticipate our revenue generating activities to continue and even increase as we seek to make acquisitions. Our consolidated financial statements were prepared assuming that we would continue as a going concern irrespective of our recurring losses, accumulated deficits and negative cash flows from operations. Our ability to continue as a going concern is subject to our ability to generate profits and/or obtain necessary funding from outside sources, including by the sale of our securities, or obtaining loans from lenders, where possible. Our continued net operating losses increase the difficulty of our meeting these goals, and our efforts to continue as a going concern may not prove successful. The Company expects that it has sufficient cash and borrowing capacity to meet its working capital needs for at least the next 12 months. The increase in working capital deficit was the result of our negative cash flow from operations.

Historically, we have financed our working capital and capital expenditure requirements primarily from the sales of our equity securities. We are seeking additional equity and/or debt financing in order to implement our business plan. In 2012 and 2011, we completed a private placement of preferred stock and warrants of \$2,000,000 and an additional \$3,809,020 as of March 31, 2013. We have a line of credit for \$10,000,000 of which we currently are allowed to use \$1,500,000 to meet our cash needs. It is reasonably possible that we will not be able to obtain sufficient financing to continue operations beyond December 2013. Furthermore, any additional equity or convertible debt financing will be dilutive to existing shareholders and may involve preferential rights over common shareholders. Debt financing, with or without equity conversion features, may involve restrictive covenants.

Related Party Transactions

No related party transactions had a material impact on our operating results for the three months ended March 31, 2013.

New Accounting Pronouncements

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

Critical Accounting Estimates

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

Off-Balance Sheet Arrangements

Since our inception, except for standard operating leases, we have not engaged in any off-balance sheet arrangements, including the use of structured finance

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

N/A

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures. Under the supervision and with the participation of our management, including our Chief Executive Officer and Principal Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the Exchange Act)) as of the end of the period covered by this report.

Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow time decisions regarding required disclosure.

Based upon that evaluation, our Chief Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report were not effective in ensuring that material information we are required to disclose in reports that we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. A controls system cannot provide absolute assurance, however, that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

Changes in Internal Control Over Financial Reporting. During the most recent quarter ended March 31, 2012, there has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act)) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS.

From time to time, the Company may become involved in litigation relating to claims arising out of its operations in the normal course of business. There have been no substantive changes in any legal proceedings described in our Annual Report on Form 10-K for the year ended December 31, 2012; and we are not involved in any material pending legal proceeding or litigation and, to the best of our knowledge, no governmental authority is contemplating any proceeding to which we are a party or to which any of our properties is subject, which would reasonably be likely to have a material adverse effect on the Company.

ITEM 1A. RISK FACTORS. N/A

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

On January 7, 2013 the Company issued 3,000 shares of its common stock to consultants for services valued at \$1.10 per share. On January 14, 2013 the Company issued 45,000 shares upon the exercise of warrants per the terms of the employment agreement. On January 16, 2013 the Company issued 11, 200 shares of common stock upon the conversion of 1,000 shares of its Series B preferred stock and accrued dividends of \$1,380. On January 22, 2013 the Company issued 100,000 shares upon the exercise of warrants per the terms of the employment agreement. On January 23, 2013 the Company issued 28,000 shares of common stock upon the conversion of 2,500 shares of its Series B preferred stock and accrued dividends of \$3,270. On January 30, 2013 the Company issued 70,000 shares of common stock upon the conversion of 6,250 shares of its Series B preferred stock and accrued dividends of \$8,745.

On February 5, 2013 the company issued 162,162 shares of its common stock to consultants for services valued at \$0.92 per share. On February 8, 2013 the Company issued 11,200 shares of common stock upon the conversion of 1,000 shares of its Series B preferred stock and accrued dividends of \$1,415. On February 22, 2013 the Company issued 92,115 shares of its common stock as a commitment fee for the Company's line of credit valued at \$1.09 per share. On February 27, 2013 the Company issued 50,000 shares upon the exercise of warrants per the terms of the consulting agreement. On March 8, 2013 the Company issued 11,200 shares of common stock upon the conversion of 1,000 shares of its Series B preferred stock and accrued dividends of \$1,212. On March 12, 2013 the Company issued 4,854 shares of its common stock to consultants for series valued at \$1.01 per share. On March 20, 2013 the Company issued 165,000 shares upon the exercise of warrants per the terms of the employment agreement. On March 22, 2013 the Company issued 25,000 shares as an incentive to a lender to extend the expiration date of an outstanding note payable. On March 27, 2013 the Company issued 155,588 shares upon the conversion of related party debt of \$152,165.

The Company claimed exemptions from registration pursuant to Section 4(a)(2) of the Securities Act. The Company relied on representations made by each shareholder in a purchase agreement or investment letter. No commissions were paid and no underwriter or placement agent was involved in the above-described transactions.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None

ITEM 4. MINE SAFETY DISCLOSURES

None

ITEM 5. OTHER INFORMATION.

None

ITEM 6. EXHIBITS.

Exhibit Number	Description of Exhibit
31.1	Section 302 Certification of Principal Executive Officer
31.2	Section 302 Certification of Principal Financial Officer
32.1	Section 906 Certification of Principal Executive Officer and Principal Financial Officer

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.

BLUE EARTH, INC.

Date: May 13, 2013

By: /s/ Johnny R. Thomas
Dr. Johnny R. Thomas
Chief Executive Officer
(Principal Executive Officer and Principal Financial Officer)

