NORESCO HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2006

(With Independent Auditors’ Report Thereon)

NORESCO HOLDINGS, INC. AND SUBSIDIARIES

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Independent Auditors' Report

The Board of Directors
NORESCO HOLDINGS, INC. and Subsidiaries:

We have audited the accompanying consolidated balance sheet of NORESCO HOLDINGS, INC. and Subsidiaries (the Company) as of December 31, 2006, and the related consolidated statements of income, stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit stockholders' equity and goodwill as of December 31, 2005 as presented in the consolidated statement of stockholders' equity and disclosed in note 3, respectively, as they were audited by other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2006 financial statements referred to above present fairly, in all material respects, the consolidated financial position of NORESCO HOLDINGS, INC. and Subsidiaries as of December 31, 2006, and the results of their operations and their cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

July 27, 2007

NORESCO HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Balance Sheet

December 31, 2006

(Thousands)

Assets		**2006**
Current assets:		
Cash and cash equivalents	$	8,635
Accounts receivable (less accumulated provision for doubtful accounts of $719)		21,350
Unbilled revenues		56,561
Inventory		155
Restricted cash		2,190
Debt service reserve		377
Deferred income tax (note 7)		601
Prepaid expenses and other current assets		4,993
Total current assets		94,862
Equity in nonconsolidated investment		142
Property, plant, and equipment, net (note 2)		4,586
Long-term unbilled revenues		42,718
Goodwill (note 3)		49,822
Other intangible assets, net (note 3)		4,398
Other assets (note 4)		11,195
Total assets	$	207,723
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of long-term debt (note 8)	$	6,918
Accounts payable		18,170
Accrued income taxes		2,819
Current portion of project financing obligations		44,318
Other current liabilities (note 5)		8,712
Total current liabilities		80,937
Long-term debt (note 8)		32,500
Asset retirement obligation		114
Project financing obligations		41,925
Deferred income tax (note 7)		66
Other liabilities (note 6)		10,110
Total liabilities		165,652
Minority interest		2,222
Stockholders' equity (41,000 shares authorized at $0.01 par value; 36,500 shares issued and outstanding)		39,849
Total liabilities and stockholders' equity	$	207,723

See accompanying notes to consolidated financial statements.

NORESCO HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statement of Income

Year ended December 31, 2006

(Thousands)

		2006
Energy service contract revenues	$	138,372
Energy service contract cost		103,020
Net operating revenues		35,352
Operating expenses:		
Selling, general, and administrative		20,618
Depreciation and amortization		2,758
Total operating expenses		23,376
Operating income		11,976
Equity earnings from nonconsolidated investment		54
Minority interest expense		557
Interest income		(475)
Interest expense		7,204
Income before income tax expense		4,744
Income tax expense (note 7)		1,829
Net income	$	2,915

See accompanying notes to consolidated financial statements.

NORESCO HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statement of Stockholders' Equity

Year ended December 31, 2006

(Thousands)

	Common stock		Retained	Additional	
	Shares outstanding	**Par value**	**earnings (deficit)**	**paid in capital**	**Stockholders' equity**
Balance, December 31, 2005	36,500	$ 365	—	36,569	36,934
Net income	—	—	2,915	—	2,915
Balance, December 31, 2006	36,500	$ 365	2,915	36,569	39,849

See accompanying notes to consolidated financial statements.

NORESCO HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statement of Cash Flows

Year ended December 31, 2006

(Thousands)

		2006
Cash flows from operating activities:		
Net income	$	2,915
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization		2,759
Amortization of construction contract costs		838
Provision for losses on accounts receivable		106
Minority interest		557
Equity earnings from nonconsolidated investments		(54)
Deferred income taxes		(967)
Changes in other assets and liabilities:		
Restricted cash used to pay operating activities of Hunterdon		(1,044)
Accounts receivable and unbilled revenues		(15,692)
Inventory		6
Prepaid expenses and other		(43)
Accounts payable		3,355
Other current liabilities		4,666
Other – net		2,170
Net cash used in operating activities		(428)
Cash flows from investing activities:		
Capital expenditures		(1,344)
Net cash used in investing activities		(1,344)
Cash flows from financing activities:		
Loans against construction contracts		13,219
Repayments of long-term debt		(1,917)
Repayment of revolver		(963)
Payments to restricted cash		(480)
Payments to debt service reserve		(5)
Net cash provided by financing activities		9,854
Net change in cash and cash equivalents		8,082
Cash and cash equivalents, beginning of period		553
Cash and cash equivalents, end of period	$	8,635
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$	2,480
Income taxes, net of refunds		213

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

Business

NORESCO HOLDINGS, INC. and Subsidiaries (the Company or NORESCO) provides an integrated group of energy-related products and services that are designed to reduce its customers' operating costs and improve their energy efficiency. The Company's activities are comprised of performance contracting, energy efficiency programs, combined heat and power and central boiler/chiller plant development, design, construction, ownership, and operation. The Company's customers include governmental, military, institutional, commercial, and industrial end-users.

On December 30, 2005, the Company was acquired by a fund managed by GFI Energy Ventures LLC (GFI) from Equitable Resources, Inc. (Equitable). The Company was sold (GFI Transaction) for $82 million before adjustments to reduce the purchase price by $5.1 million. The effect of GFI's acquisition of the Company was recognized in the accompanying consolidated financial statements.

On May 2, 2007, pursuant to the settlement agreement between Equitable and GFI, $0.7 million was paid directly to GFI for indemnifications as defined in the sellers agreement. This settlement will be reflected as a reduction of $0.7 million in equity and goodwill during 2007.

The Company, as general partner, holds a 50% controlling equity interest in Hunterdon Cogeneration Limited Partnership. As part of an energy services agreement entered with the State of New Jersey, on behalf of the New Jersey Department of Corrections and the New Jersey Department of Human Services, the cogeneration facility produces and sells electricity and steam to the Hunterdon Developmental Center and Edna Mahan Correctional Facility for Women. The agreement is set to expire in 2013.

Principles of Consolidation

The consolidated financial statements include the accounts of NORESCO HOLDINGS, INC. and all subsidiaries and a partnership (Hunterdon Cogeneration Limited Partnership) in which a controlling equity interest is held. All significant intercompany accounts and transactions have been eliminated in consolidation. The Company utilizes the equity method of accounting for one partnership (Plymouth Cogeneration Limited Partnership) in which its ownership is less than 50% and significant influence exists.

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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. These investments are accounted for at cost, which approximates fair value due to the short maturity of the investments. Interest earned on cash equivalents is included as interest income.

Restricted Cash and Debt Service Reserve

Restricted cash consists of cash held in trust for annual installment principal payments on debt, payments to partners, and certain operating expenses of the Hunterdon Cogeneration Limited Partnership (Hunterdon). Debt service reserve consists of cash held in trust to maintain a minimum balance of two quarterly debt payments of Hunterdon's debt.

Inventory

Inventory consists of fuel, oil, and other supplies and is valued at the lower of cost or market, with cost being determined using the average cost method.

Property, Plant, and Equipment

Property, plant, and equipment is carried at cost and depreciation is calculated using the straight-line method based on estimated service lives. This property consists largely of buildings (35 year estimated service life), office equipment (3-7 year estimated service life), vehicles (5 year estimated service life), and computer and telecommunications equipment and systems (3-7 year estimated service life).

Planned major maintenance projects that do not increase the overall life of the related assets are expensed. When the major maintenance materially increases the life or value of the underlying asset, the cost is capitalized.

Goodwill

Goodwill is the excess of the acquisition cost of businesses over the fair value of the identifiable net assets (tangible and intangible) acquired. Goodwill is required to be evaluated for impairment on an annual basis according to Statement of Financial Accounting Standard (SFAS) No. 142, *Goodwill and Other Intangible Assets* (Statement No. 142). Statement No. 142 requires that a two-step process be performed to analyze whether or not goodwill has been impaired. Step one requires that the fair value be compared to book value. If the fair value is higher than the book value, no impairment is indicated and there is no need to perform the second step of the process. If the fair value is lower than the book value, step two must be evaluated. Step two requires that a hypothetical purchase price allocation analysis be done to determine the implied fair value of goodwill. This implied fair value of goodwill is then compared to its carrying value. If the implied fair value is lower than the carrying value, an impairment must be recorded. Annually, the goodwill is assessed for impairment in the fourth quarter. There were no impairments identified in the current year assessment.

Impairment of Long-Lived Assets

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, whenever events or changes in circumstances indicate that the carrying amount of long-lived assets may not be recoverable, the Company reviews its long-lived assets for impairment by first comparing the carrying value of the assets to the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the assets. If the carrying value exceeds the sum of the assets' undiscounted cash flows, the Company determines the impairment loss as the difference between the carrying value and fair value of the assets.

(Continued)

Revenue Recognition

The Company recognizes revenue and profit from long-term contracts using the percentage of completion method of accounting. The percentage of completion method measures the percentage of contract costs incurred to date to the estimated total contract costs for each contract. Contract costs include all direct material, labor, subcontract costs, and those indirect costs related to contract performance. Selling, general, and administrative costs are charged to expense as incurred. Revenue from contract change orders and claims is recognized when settlement is probable and the amount can be reasonably estimated. Costs and estimated profits in excess of billings are classified as unbilled revenues on the consolidated balance sheet. Amounts billed in excess of costs and estimated profits are classified as other liabilities on the consolidated balance sheet. The Company follows this method since reasonably dependable estimates of the revenue and costs applicable to various stages of a contract can be made. However, due to uncertainties inherent in the estimation process, actual results could differ from those estimates. Since the financial reporting of these contracts depends on estimates, which are assessed continually during the term of the contract, recognized revenues and profit are subject to revisions as the contract progresses to completion. The revenue recognized on contracts is not related to progress billings to customers. Revisions in profit estimates, including revisions relating to events that occurred after the balance sheet date but before issuance of the financial statements, are reflected in the consolidated financial statements. Accordingly, favorable changes in estimates result in additional profit recognition, and unfavorable changes in estimates result in the reduction of previously recognized revenue and profits. The accuracy of the gross margins the Company reports for contracts is dependent upon various judgments it makes with respect to its contract performance, its cost estimates, and its ability to recover additional contract costs through change orders or claims. When estimates indicate a loss under a contract, energy service contract cost is charged with a provision for such loss in the period in which such losses are identified. As work progresses under a loss contract, revenues continue to be recognized, and a portion of the contract costs incurred in each period is charged to the contract loss reserve. The Company has determined that there are no loss contracts as of December 31, 2006. Balances billed but not paid by customers under retainage provisions in contracts were not significant at December 31, 2006.

With certain projects, the Company enters into shared energy savings contracts to provide sustained levels of energy savings to its customers. The terms of the project are defined by an energy services agreement between the Company and the customer. Once completed, these projects will earn revenue from the customer based on the measurement formulas established in the energy services agreement. The Company recognizes revenue from shared energy savings contracts as energy savings are measured and verified, in accordance with the established measurement formulas.

Revenue received from customer contract termination payments is recognized when received. Any maintenance revenues are recognized as related services are performed.

Sales of Receivables

The Company enters into construction contracts with governmental customers and accrues unbilled revenue on these contracts under percentage of completion accounting for revenue earned but not yet billed. The Company sells the rights to these unbilled revenues, which represent unbilled receivables from governmental customers, to institutional counterparties in an effort to accelerate cash collection. The Company records an increase to project financing obligation and accrues interest expense for the cash received from the institutional counterparty over the construction period. Interest expense represents the difference between the carrying value of the receivable sold and the selling price. The sale of the receivables is accounted for under FASB Statement No. 140 (Statement 140), *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. The Company received proceeds from the sale of receivables of $38.0 million during the year and has included these proceeds in net cash used in operating activities in the consolidated statement of cash flows. The receivables that have not yet met the criteria of sales treatment under Statement 140 are recorded in unbilled revenue and project financing obligations on the consolidated balance sheet.

Investments

Investments in companies in which the Company has the ability to exert significant influence over operating and financial policies are accounted for using the equity method. Under the equity method, investments are initially recorded at cost and adjusted for dividends and undistributed earnings and losses. A loss in the value of an equity method investment is recognized when the loss is determined to be other than temporary in accordance with Accounting Principles Board No. 18, *The Equity Method of Accounting for Investments in Common Stock* (APB 18). The Company has one investment (Plymouth Cogeneration Limited Partnership), which is classified as equity in nonconsolidated investment on the consolidated balance sheet. The Company analyzes its equity method investment based on its share of estimated future cash flows from the investment to determine whether the carrying amount will be recoverable.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Allowance for Doubtful Accounts

Judgment is required to assess the ultimate realization of the Company’s accounts receivable, including assessing the probability of collection and the creditworthiness of certain customers. Reserves for uncollectible accounts are recorded as part of selling, general, and administrative expense on the statement of consolidated income. The reserve is based on historical experience, current and expected economic trends, and specific information about customer accounts. Accordingly, actual results may differ from these estimates under different assumptions or conditions.

Stock-Based Compensation

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 123(R), *Share-Based Payment*. This statement replaces SFAS No. 123, *Accounting for Stock-Based Compensation* and supersedes Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*. SFAS No. 123(R) requires that all stock-based compensation be recognized as an expense in the financial statements and that such cost be measured at the fair value of the award. This statement was adopted using the prospective method of application, which requires the Company to recognize compensation cost on a prospective basis. For stock-based awards granted after January 1, 2006, the Company recognizes compensation expense based on estimated grant date fair value using the Black-Scholes option pricing model. During 2006, the Company established NORESCO Acquisition, Inc. 2006 Stock Incentive Plan (the Plan). The purpose of the Plan is to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to selected key employees, consultants, and directors, and to promote the success of the Company's business. The Plan provides for the issuance of up to 4,055,556 shares. The exercise price of the options may not be less than the fair market value of the common stock at the date of grant. Compensation expense relating to these options was $0 for the year ended December 31, 2006.

Fair Value of Financial Instruments

The carrying value of all financial instruments approximates fair value.

Concentrations of Credit Risk

The Company's operating revenues and related accounts receivable are generated from performance contracts with federal, state, and local government; institutional customers throughout the United States; and cogeneration and power plant facilities in several U.S. markets.

The Company has one energy savings performance contracting project with the federal government that accounted for 22% of revenue in 2006 and represents 31% of unbilled revenues at December 31, 2006.

(2) Property, Plant, and Equipment

The Company's property, plant, and equipment consists of the following:

		December 31, 2006 (Thousands)
Power generation facility – Hunterdon	$	2,891
Office equipment		2,058
Leasehold improvements		249
Other equipment		123
Accumulated depreciation		(735)
Property, plant, and equipment, net	$	4,586

Depreciation expense for property, plant, and equipment totaled $0.7 million for the year ended December 31, 2006.

(3) Goodwill and Other Intangible Assets, Net

The table below reflects changes or activity in the balances related to goodwill for the year ended December 31, 2006 including adjustments to the allocation of the purchase price in the prior year:

		Net carrying amount
		(Thousands)
Goodwill balance as of January 1, 2006	$	49,231
Less: Goodwill adjustments		591
Goodwill balance as of December 31, 2006	$	49,822

The following is a list of other intangible assets and the remaining amortization period as of December 31, 2006.

		2006	Total amortization period
		(Thousands)	
Trademark	$	382	Indefinite
Construction customer backlog, net of accumulated amortization of $1,311		1,311	24 months
Operations contract backlog, net of accumulated amortization of $386		2,705	96 months
Total	$	4,398	

Amortization, which is recorded on a straight-line basis, was $1.7 million for the year ended December 31, 2006. Amortization expense is expected to be $1.7 million in 2007 and $0.4 million in 2008 through 2011.

(4) Other Assets

The Company's other assets consist of the following:

		December 31, 2006
		(Thousands)
Lease receivable	$	6,577
Capitalized project costs		1,532
Deferred emission reduction credits		949
Deferred financing costs		694
Deferred costs		870
Other		573
Total other assets	$	11,195

In June 2001, the Company entered into an agreement to construct and lease a chiller water plant for a customer and oversee its operations for the next 20 years. The lease is set up with a fixed capacity payment that covers capital recovery of the chilled water plant equipment plus the operations and maintenance costs. At the end of the term, the ownership of the chilled water plant transfers to the customer. Due to the fact that the assets are transferred at the end of the lease, the collectability of the fixed payments can be reasonably predicted, and that there are no uncertainties regarding unreimbursable costs yet to be incurred by the Company, in accordance with Statement of Financial Accounting Standards No. 13, *Accounting for Leases*, the Company is treating this lease as a capital lease. The repayment of this lease receivable will be complete in December 2021.

The Company has recorded a lease receivable in the amount of $12.0 million that represents the future minimum lease payments to be received through the term of the lease. The current portion of the lease receivable, $0.6 million, is included in the Accounts Receivable line on the balance sheet. The long term portion, $11.4 million, is included in the Lease Receivable line in other assets.

The Company has recorded deferred interest in the amount of $5.3 million related to the lease. The current portion of the deferred interest, $0.5 million, is included as a reduction in Accounts Receivable on the balance sheet. The long term portion, $4.8 million, is included as a reduction in Lease Receivable in other assets.

Future annual minimum lease payments and earned deferred interest are as follows:

	Lease payments (Thousands)	Deferred interest earned (Thousands)
2007	$ 646	$ 531
2008	666	521
2009	686	508
2010	706	493
2011	728	474
Thereafter	8,590	2,803
	$ 12,022	$ 5,330

In connection with the financing of the GFI transaction, the Company paid $1.2 million of legal and financing costs, which the Company has capitalized. These financing costs are to be amortized using the straight-line method over the life of the debt.

(5) Other Current Liabilities

The Company's other current liabilities consist of the following:

		December 31, 2006 (Thousands)
Accrued wages	$	3,528
Warranty reserve		930
Funds held for distribution to finance companies		2,457
Other		1,797
Total other current liabilities	$	8,712

(6) Other Liabilities

The Company's other liabilities consist of the following:

		December 31, 2006 (Thousands)
Deferred revenue	$	4,044
Deferred termination		4,876
Other		1,190
Total	$	10,110

Included in Other is a $0.6 million derivative liability that has resulted from a project financing obligation whereby the financing company loaned cash to the Company denominated in Japanese Yen; however, repayment terms are based on a fixed exchange rate.

The Company has recorded a $4.9 million deferred termination liability at December 31, 2006. This liability represents the amount owed to institutional counterparties should the Company's governmental customers decide to prepay their permanent financing, which is with the Company's institutional counterparties. The Company accrues this liability over the construction period as interest expense. If the Company has to pay the institutional counterparty as a result of prepayment by their governmental customers the liability is relieved. Otherwise this liability is amortized to interest expense as the Company's exposure is reduced due to payments made by the Company's governmental customers to their institutional counterparties. The Company's exposure is over their governmental customer's permanent financing period which ranges up to a maximum of twenty years.

(7) Income Taxes

The components of income tax expense (benefit) for the year ended December 31, 2006 are as follows:

		December 31, 2006 (Thousands)
Current:		
Federal	$	2,272
State		524
		2,796
Deferred:		
Federal		(849)
State		(118)
		(967)
Total	$	1,829

Income tax expense was different from the amounts computed by applying the statutory federal income tax rate of 34% to income before income taxes due to the following items:

		December 31, 2006 (Thousands)
Tax at statutory rate	$	1,613
State income taxes		232
Federal tax credits and incentives		(50)
Other		34
Income tax expense	$	1,829
Effective income tax rate		38.6%

The components of the deferred tax assets (liabilities) at December 31, 2006 are as follows:

		December 31, 2006 (Thousands)
Deferred tax assets:		
Long-term contract account	$	1,506
Uncollectible accounts		278
Deferred revenues		263
Other		92
Total deferred tax assets		2,139
Deferred tax liabilities:		
Intangible amortization		(1,554)
Tax depreciation in excess of book depreciation		(50)
Total deferred tax liabilities		(1,604)
Net deferred tax asset	$	535

In assessing whether a valuation allowance for the deferred tax assets should be recorded, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences.

(8) Long-Term Debt

		December 31, 2006 (Thousands)
Hunterdon short-term debt	$	698
Term loans		38,720
Revolving credit facility		—
		39,418
Less current portion of long-term debt		6,918
Total long-term debt	$	32,500

Interest expense on outstanding debt amounted to $3.5 million in 2006. Interest expense also includes interest expense of $3.9 million related to project financing obligations. Aggregate maturities of outstanding debt are $4.6 million in 2007, $3.9 million in 2008, $3.9 million in 2009, and $27.0 million in 2010.

To finance the acquisition, the Company obtained financing from General Electric Capital Corporation (GECC) in the form of two term loan notes. The first being a $20 million note with an interest rate based on prime rate plus 175 basis points or LIBOR plus 250 basis points. The rate is selected by the Company and fixed for a specified period of time, and reset at the end of that period. As of December 31, 2006, the rate was 7.87% based upon LIBOR plus 250 basis points. The Company shall repay the note by making quarterly installments in the amount of $930,000 through September 30, 2010. A final installment in the amount of $4,970,000, or the remaining principal balance, is due on December 31, 2010. The second is a $20 million note with an interest rate based on prime rate plus 325 basis points or LIBOR plus 400 basis points. The rate is selected by the Company and fixed for a specified period of time, and reset at the end of that period. As of December 31, 2006, the rate was 9.37% based upon LIBOR plus 400 basis points. The Company shall repay the note by making quarterly installments in the amount of $50,000 through September 30, 2010. A final installment in the amount of $19,050,000, or the remaining principal balance, is due on December 31, 2010. Both term loans are due in full on December 31, 2010. In addition to the scheduled installments, within 100 days after the end of each fiscal year, the Company shall prepay the loans in an amount equal to an excess cash flow as defined in the credit agreement with GE Capital Corp. The amount of prepayment debt due within 100 days was $2.3 million as of December 31, 2006. The prepayment amount of $2.3 million plus the normal scheduled payments due in 2007 are recorded as current portion of long-term debt as of December 31, 2006. As part of the financing arrangement, the Company has pledged a substantial amount of its assets. The Company was in compliance with all debt covenants pertaining to both term loan notes at December 31, 2006, except for the requirement to pay the prepayment of $2.3 million and to provide audited financial statements within 100 days of December 31. The Company received a waiver letter from GECC extending the due date of the prepayment of $2.3 million and the delivery of audited financial statements until July 31, 2007.

During the year ended December 31, 2005, the Company entered into a secured revolving credit facility agreement with a maximum borrowing capacity of $15.0 million. As of December 31, 2006, there was no balance outstanding with the revolver. The interest rate for the revolving credit facility was 10.75% at December 31, 2006, based upon prime rate plus 250 basis points. The Company was in compliance with all debt covenants pertaining to the revolving credit facility at December 31, 2006, except for the requirement to provide audited financial statements within 100 days of December 31. The Company received a waiver letter from GECC extending the due date to deliver the audited financial statements until July 31, 2007.

(9) Employee Benefit Plans

Expense recognized by the Company related to its 401(k) employee savings plans totalled $0.7 million in 2006.

(10) Commitments and Contingencies

There are various claims and legal proceedings against the Company arising from the normal course of business. Although counsel is unable to predict with certainty the ultimate outcome, management and counsel believe that the Company has significant and meritorious defenses to pending claims and intends to pursue them vigorously.

(11) Stock-Based Compensation

As discussed in note 1, the Company adopted SFAS No. 123(R) on January 1, 2006. SFAS No. 123(R) was adopted prospectively by the Company, which requires the Company to recognize compensation cost on a prospective basis. The following table represents a rollforward of stock options from December 31, 2005 to December 31, 2006:

	Shares under option (Thousands)	Available for option (Thousands)	Price per share	Weighted average exercise price
Outstanding at December 31, 2005	—	—	—	—
Options granted	3,359	3,359	$ 1.00	$ 1.00
Options exercised	—	—	—	—
Options expired	—	—	—	—
Options forfeited	215	215	1.00	1.00
Outstanding at December 31, 2006	3,144	3,144	$ 1.00	$ 1.00

The calculated fair value of each option granted is estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in 2006:

Expected dividend yield	0.00%
Expected volatility of Company's stock	52.68%
Risk-free interest rate	5.03%
Expected life in years	4.62
Weighted average calculated fair value of options granted per share	$ 0.50

Because the Company is a privately owned, closely held Corporation, there is not sufficient empirical data associated with prior transactions involving the Company's common stock to determine the volatility of the common stock. In accordance with SFAS No. 123(R), expected volatility was based upon comparable guideline companies whose historical volatilities provided a better indication of the future volatility of NORESCO's stock. The risk-free interest rate is based upon a zero coupon treasury rate. The term of each option shall commence on the date of the Grant Notice and expire on the tenth anniversary of the grant date. However, while the options may be exercised from the time that the vesting requirements have been met until the expiration of the Options on the tenth anniversary of being granted, the restrictions on the transferability of the options and the Option shares effectively prevent the Option Shares from being convertible into value until a merger, sale, or change of control of the Company occurs. The options vest over four years with 25% vesting on each 1 year anniversary of the grant date.

The following table provides information about unvested options for the year ended December 31, 2006:

	Shares		Weighted average grant date fair value per share
	(Thousands)		
Unvested options at December 31, 2005	—	$	—
Granted	3,359		0.50
Vested	—		—
Forfeited	215		0.50
Unvested options at December 31, 2006	3,574	$	0.50

Subsequent to December 31, 2006, 369,100 options were granted on February 5, 2007 and March 7, 2007.

The total compensation cost related to unvested awards not yet recognized was $1.6 million at December 31, 2006. There is a performance condition in the awards that precludes the options from being exercised until a merger, sale, or change of control of the Company occurs. As the Company does not know when the condition will be met, it cannot determine when the unvested stock compensation expense will be recorded.

At December 31, 2006, there were no options outstanding that were exercisable.

(12) Operating Leases

The Company leases substantially all of its office facilities under noncancelable operating leases that expire at various dates through 2011. Certain agreements contain renewal options for additional periods and contain certain rent escalation clauses. The lease agreements provide primarily for payment of minimum annual rentals, costs of utilities, and maintenance. Rent expense under these operating leases was approximately $1.6 million for 2006.

Future annual minimum lease payments under noncancelable operating leases are as follows (in thousands):

2007	$	1,324
2008		408
2009		269
2010		202
2011		84
	$	2,287

(13) Noncash Activities

As discussed in note 3, purchase accounting adjustments were made in the current year that had a noncash impact on goodwill as well as various other balance sheet captions as follows (in thousands):

Increase in accounts receivable	$	(145)
Increase in unbilled revenues		(766)
Decrease in deferred income tax		1,456
Increase in property, plant and equipment		(10)
Decrease in other assets		310
Decrease in accounts payable		(53)
Decrease in accrued income taxes		(486)
Decrease in project financing obligations		(803)
Increase in other current liabilities		765
Increase in other liabilities		323
	$	591

The impact of these adjustments on the consolidated balance sheet as of December 31, 2006 has been properly excluded from the consolidated statement of cash flows.