

MidWestOne Financial Group, Inc.
Form 10-Q
May 05, 2011

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

FORM 10-Q

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

For the quarterly period ended March 31, 2011

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 000-24630

MIDWESTONE FINANCIAL GROUP, INC.

102 South Clinton Street
Iowa City, IA 52240
(Address of principal executive offices, including Zip Code)

Registrant's telephone number: 319-356-5800

Iowa 42-1206172
(State of Incorporation) (I.R.S. Employer Identification 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☐ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition 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 checked="" type="checkbox"/> |
| Non-accelerated filer | <input type="checkbox"/> | Smaller reporting company | <input 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 3, 2011, there were 8,627,971 shares of common stock, \$1.00 par value per share, outstanding.

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MIDWESTONE FINANCIAL GROUP, INC.

Form 10-Q Quarterly Report

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

MIDWESTONE FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

| | March 31, 2011 (unaudited) | December 31, 2010 |
|---|----------------------------------|----------------------|
| (dollars in thousands) | | |
| ASSETS | | |
| Cash and due from banks | \$ 19,085 | \$ 13,720 |
| Interest-bearing deposits in banks | 4,318 | 6,077 |
| Federal funds sold | 264 | 726 |
| Cash and cash equivalents | 23,667 | 20,523 |
| Investment securities: | | |
| Available for sale | 501,946 | 461,954 |
| Held to maturity (fair value of \$3,716 as of March 31, 2011 and \$4,086 as of December 31, 2010) | 3,672 | 4,032 |
| Loans held for sale | 279 | 702 |
| Loans | 938,523 | 938,035 |
| Allowance for loan losses | (15,398) | (15,167) |
| Net loans | 923,125 | 922,868 |
| Loan pool participations, net | 62,207 | 65,871 |
| Premises and equipment, net | 25,916 | 26,518 |
| Accrued interest receivable | 9,580 | 10,648 |
| Other intangible assets, net | 10,919 | 11,143 |
| Bank-owned life insurance | 27,001 | 26,772 |
| Other real estate owned | 3,874 | 3,850 |
| Deferred income taxes | 6,097 | 6,430 |
| Other assets | 19,948 | 19,948 |
| Total assets | \$ 1,618,231 | \$ 1,581,259 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Deposits: | | |
| Non-interest-bearing demand | \$ 144,724 | \$ 129,978 |
| Interest-bearing checking | 472,257 | 442,878 |
| Savings | 75,439 | 74,826 |
| Certificates of deposit under \$100,000 | 379,326 | 380,082 |
| Certificates of deposit \$100,000 and over | 191,412 | 191,564 |
| Total deposits | 1,263,158 | 1,219,328 |
| Federal funds purchased | — | — |
| Securities sold under agreements to repurchase | 46,325 | 50,194 |
| Federal Home Loan Bank borrowings | 117,200 | 127,200 |
| Deferred compensation liability | 3,698 | 3,712 |
| Long-term debt | 15,464 | 15,464 |
| Accrued interest payable | 1,964 | 1,872 |
| Other liabilities | 9,107 | 5,023 |
| Total liabilities | 1,456,916 | 1,422,793 |
| Shareholders' equity: | | |

Revenue

We continued to focus our efforts and resources to the manufacturing, assembling, marketing and selling of the Voraxial Separator. Revenues for the year ended December 31, 2013 increased by \$418,191 to \$1,191,559 or approximately 54% from \$773,368 for the year ended December 31, 2012. We believe the increase in revenues corresponds to the increase customer interests and market awareness for the Voraxial. In the past year we have been recognized by various oil and gas industry organizations and have participated in conferences and tradeshow. With the increased exposure and awareness of the Voraxial, we are completing more projects and are reviewing more inquiries and projects over the past 2 years than at any other time in our history. We believe the dissemination of data from previously installed Voraxials is also creating an increase awareness and demand for the Voraxial. We continue to build relationships with oil services companies, representatives and oil exploration and production companies and believe these relationships will increase revenues in the near and long term. The majority of revenues in 2013 and 2012 were a result of sales of the Voraxial Separator and auxiliary equipment and parts, and the remaining revenues were from lease orders and trials for customers interested in buying the Voraxial Separator. The increase in revenues in 2013 was the result of additional sales. Management believes the interest for the Voraxial Separator for liquid/liquid, liquid/solid and liquid/liquid/solid separation is increasing in the oil exploration and production industry. We believe that the relationships we are building will lead to increase Voraxial shipments. We believe we have increased the exposure and awareness of the Voraxial Separator through our marketing programs and expect to increase revenues from the sale and lease of the Voraxial Separator in 2014.

Cost of goods sold increased to \$484,541 for the year ended December 31, 2013 from \$389,754 during the year ended December 31, 2012 or an increase of \$94,787 or approximately 24%. The majority increase in cost of goods sold was directly related to our increase in revenues.

Costs and expenses

Costs and expenses decreased by approximately 44% or \$817,346 to \$1,054,018 for the year ended December 31, 2013 as compared to \$1,871,364 for the year ended December 31, 2012. Our cost and expenses decreased primarily due to a decrease in consulting expense and to a lesser extent due to a decrease in payroll expense and research and development. The decreases were partially offset by increases in general and administrative expenses. As we continue to build our network of representatives we were able to reallocate our expenses to reduce costs while expanding our customer penetration.

General and administrative expenses

General and Administrative expenses increased by approximately 29% or \$128,314 to \$565,963 for the year ended December 31, 2013 from \$437,649 for the year ended December 31, 2012. The increase was primarily due to an increase in legal and professional fees and an increase in marketing and sales expenses.

Consulting and Payroll Expenses

Consulting expenses decreased by approximately 95% or \$829,582 to \$39,986 for the year ended December 31, 2013 from \$869,568 for the year ended December 31, 2012. The decrease was primarily due to non-cash expenses associated with the issuance of options to employees and consultants in 2012. Payroll expense decreased by 16% or \$63,490 to \$425,648 for the year ended December 31, 2013 as compared to \$489,138 for the year ended December 31, 2012. The decrease reflects the fluctuations in employee overtime.

Research and development expenses

Research and Development (R&D) expenses decreased to \$22,421 for the year ended December 31, 2013 from \$75,009 for the year ended December 31, 2012. As the development of the Voraxial is complete, specific R&D projects has decreased and is predominantly for activities in the oil and gas industry. The Company filed a provisional patent during 2013.

Liquidity and capital resources

At December 31, 2013, we had working capital deficiency of \$749,565, cash of \$135,954 and an accumulated deficit of \$15,513,116. For the year ended December 31, 2013, we had a net loss of \$357,148. Operating at a loss for the year negatively impacted our cash position. We believe that including our current cash resources and anticipated revenue to be generated by sales and/or leases of our Voraxial Separators, we will have sufficient resources to continue business operations for the next twelve months. To the extent that these resources are not sufficient to sustain current operating activities, we may need to seek additional capital, or adjust our operating plan accordingly.

Continuing losses

We may be unable to continue as a going concern, given our limited operations and revenues and our significant losses to date. Consequently, our working capital may not be sufficient and our operating costs may exceed those experienced in our prior years. In light of these recent developments, we may be unable to continue as a going concern.

The Company has experienced net losses, has a working capital and stockholders' deficit. There is no assurance that the Company's developmental and marketing efforts will be successful, that the Company will ever have commercially accepted products, or that the Company will achieve significant revenues. If the Company is unable to successfully commercialize its Voraxial Separator, it is unlikely that the Company could continue its business. Therefore, substantial doubt exists about the ability of the Company to continue as a going concern. The Company may require the infusion of capital until operations become profitable. During 2014, the Company may seek additional capital in the event it is unable to increase sales of the Voraxial Separator or continue to restrict expenses.

Critical Accounting Policies

Our financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Note C of the Notes to Financial Statements describes the significant accounting policies used in the preparation of the consolidated financial statements. Certain of these significant accounting policies are considered to be critical accounting policies, as defined below.

A critical accounting policy is defined as one that is both material to the presentation of our financial statements and requires management to make difficult, subjective or complex judgments that could have a material effect on our

financial condition and results of operations. Specifically, critical accounting estimates have the following attributes: 1) we are required to make assumptions about matters that are highly uncertain at the time of the estimate; and 2) different estimates we could reasonably have used, or changes in the estimate that are reasonably likely to occur, would have a material effect on our financial condition or results of operations.

Estimates and assumptions about future events and their effects cannot be determined with certainty. We base our estimates on historical experience and on various other assumptions believed to be applicable and reasonable under the circumstances. These estimates may change as new events occur, as additional information is obtained and as our operating environment changes. These changes have historically been minor and have been included in the consolidated financial statements as soon as they became known. Based on a critical assessment of our accounting policies and the underlying judgments and uncertainties affecting the application of those policies, management believes that our consolidated financial statements are fairly stated in accordance with accounting principles generally accepted in the United States, and present a meaningful presentation of our financial condition and results of operations. We believe the following critical accounting policies reflect our more significant estimates and assumptions used in the preparation of our consolidated financial statements:

Revenue Recognition

The Company derives its revenue from the sale and short-term rental of the Voraxial Separator. The Company presents revenue in accordance with Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) 605 "Revenue Recognition in Financial Statements". Under Revenue Recognition in Financial Statements, revenue is realized when persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable and collectability is reasonably assured.

Estimates

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

Recent Accounting Pronouncements

Recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the AICPA, and the SEC, did not, or are not believed by management, to have a material impact on the Company's present or future financial statements.

Risk Factors

Our independent auditors have raised substantial doubt about our ability to continue as a going concern.

Our independent auditors have included in their audit report an explanatory paragraph that states that our continuing losses from operations raises substantial doubt about our ability to continue as a going concern.

We have not yet generated significant revenues from the Voraxial Separator. The revenues and income potential of our business and the markets of our separation technology are unproven. We have incurred operating losses since our inception, and we will continue to incur net losses until we can produce sufficient revenues to cover our costs. At December 31, 2013, we had an accumulated deficit of \$15,513,116, including a net loss of \$357,148 for the year ended December 31, 2013. Even if we achieve profitability, we may not be able to sustain or increase our profitability on a quarterly or annual basis.

Our ability to generate future revenues will depend on a number of factors, many of which are beyond our control. These factors include the rate of market acceptance of our products, competitive efforts, and general economic trends. Due to these factors, we cannot anticipate with any degree of certainty what our revenues will be in future periods. You have limited historical financial data and operating results with which to evaluate our business and our prospects.

We have been limited by insufficient capital, and we may continue to be so limited.

In the past, we have lacked the required capital to market the Voraxial Separator. Our inability to raise the funding or to otherwise finance our capital needs could adversely affect our financial condition and our results of operations, and could prevent us from implementing our business plan.

We may seek to raise capital through public and private equity offerings, debt financing or collaboration, and strategic alliances. Such financing may not be available when we need it or may not be available on terms that are favorable to us. If we raise additional capital through the sale of our equity securities, your ownership interest will be diluted and the terms of the financing may adversely affect your holdings or rights as a stockholder.

We currently rely on a limited number of customers for our revenues.

Revenues from three customers accounted for approximately 85% of total revenues during 2013 and 2012. We do not have any contracts with these customers. If these customers fail to order additional products or we are unable to attract new customers, it could have an adverse effect on our financial condition and results of operations.

If our products do not achieve and maintain market acceptance, our business will not be successful.

Even though our product is successfully developed, our success and growth will depend upon its acceptance by various potential users of our product. Acceptance will be a function of our product being more cost effective as compared to currently existing or future technologies. If our product does not achieve market acceptance, our business will not be successful. In addition, even if our product achieves market acceptance, we may not be able to maintain that market acceptance over time if new products or technologies are introduced that are more favorably received than our product or render our products obsolete.

If we do not develop sales and marketing capabilities or arrangements successfully, we will not be able to commercialize our product successfully.

We have limited sales and marketing experience. We may market and sell our product through a direct sales force or through other arrangements with third parties, including co-promotion arrangements. Since we may market and sell any product we successfully develop through a direct sales force, we will need to hire and train qualified sales personnel.

Our market is subject to intense competition. If we are unable to compete effectively, our product may be rendered non-competitive or obsolete.

We are engaged in a segment of the water filtration industry that is highly competitive and rapidly changing. Many large companies, academic institutions, governmental agencies, and other public and private research organizations are pursuing the development of technology that can be used for the same purposes as our product. We face, and expect to continue to face, intense and increasing competition, as new products enter the market and advanced technologies become available. We believe that a significant number of products are currently under development and will become available in the future that may address the water filtration segment of the market. If other products are successfully developed, it may be marketed before our product.

Our competitors' products may be more effective, or more effectively marketed and sold, than any of our products. Many of our competitors have:

- significantly greater financial, technical and human resources than we have and may be better equipped to discover, develop,
- manufacture and commercialize products; and
- more extensive experience in marketing water treatment products.

Competitive products may render our products obsolete or noncompetitive before we can recover the expenses of developing and commercializing our product. Furthermore, the development of new technologies and products could

render our product noncompetitive, obsolete, or uneconomical.

As we evolve from a company primarily involved in design and development to one also involved in commercialization, we may encounter difficulties in managing our growth and expanding our operations successfully.

We may experience a period of rapid and substantial growth that may place a strain on our administrative and operational infrastructure, and we anticipate that continued growth could have a similar impact. As our product continues to enter and advance in the market, we will need to expand our development, regulatory, manufacturing,

marketing and sales capabilities or contract with third parties to provide these capabilities for us. As our operations expand, we expect that we will need to manage additional relationships with various collaborative partners, suppliers, and other third parties.

If we are unable to adequately protect our technology, or if we infringe the rights of others, we may not be able to defend our markets or to sell our product.

Our success may depend in part on our ability to continue and expand our patent protection both in the United States and in other countries for our product. Due to evolving legal standards relating to the patentability, validity, and enforceability of patents covering our product and the scope of claims made under these patents, our ability to obtain and enforce patents is uncertain and involves complex legal and factual questions. Accordingly, rights under any issued patents may not provide us with sufficient protection for our product or provide sufficient protection to afford us a commercial advantage against competitive products or processes.

Our success may also depend in part on our ability to operate without infringing the proprietary rights of third parties. The manufacture, use, or sale of our product may infringe on the patent rights of others. Likewise, third parties may challenge or infringe upon our existing or future patents. Proceedings involving our patents or patent applications or those of others could result in adverse decisions regarding:

- the patentability of our inventions relating to our product; and/or
- the enforceability, validity, or scope of protection offered by our patents relating to our product.

Litigation may be necessary to enforce the patents we own and have applied for (if they are awarded), copyrights, or other intellectual property rights, to protect our trade secrets, to determine the validity and scope of the proprietary rights of others, or to defend against claims of infringement. This type of litigation could result in the expenditure of significant financial and managerial resources and could result in injunctions preventing us from distributing certain products. Such claims could materially adversely affect our business, financial condition, and results of operations.

We are dependent on key personnel.

We are dependent upon the availability and the continued performance of the services of John A. DiBella. The loss of the services of John A. DiBella could have a material adverse effect on us. In addition, the availability of skilled personnel is extremely important to our growth strategy and our failure to attract and retain such personnel could have a material, adverse effect on us. We do not currently maintain any key man life insurance covering Mr. DiBella or any of our employees.

Our operations are subject to governmental approvals and regulations and environmental compliance.

Our operations are subject to extensive and frequently changing federal, state, and local laws and substantial regulation by government agencies, including the United States Environmental Protection Agency (EPA), the United States Occupational Safety and Health administration (OSHA) and the Federal Aviation Administration (FAA). Among other matters, these agencies regulate the operation, handling, transportation and disposal of hazardous materials used by us during the normal course of our operations, govern the health and safety of our employees and certain standards and licensing requirements for our aerospace components that we contract manufacture. We are subject to significant compliance burden from this extensive regulatory framework, which may substantially increase our operational costs.

We believe that we have been and are in compliance with environmental requirements and believe that we have no liabilities under environmental requirements. Further, we have not spent any funds specifically on compliance with environmental laws. However, some risk of environmental liability is inherent in the nature of our business, and we

might incur substantial costs to meet current or more stringent compliance, cleanup, or other obligations pursuant to environmental requirements in the future. This could result in a material adverse effect to our results of operations and financial condition.

Our business has a substantial risk of product liability claims. If we are unable to obtain appropriate levels of insurance, a product liability claim against us could adversely affect our business.

Our business exposes us to possible claims of personal injury, death, or property damage, which may result from the failure, or malfunction of any component or subassembly manufactured or assembled by us. While we have product liability insurance, any product liability claim made against us may have a material adverse effect on our business, financial condition, or results of operations in light of our poor financial condition, losses and limited revenues.

We currently have limited authorized, but unissued shares of capital stock.

As of December 31, 2013, the Company has approximately 9,285,503 shares of authorized, but unissued Common Stock. In addition, the Company has reserved approximately 13,465,000 shares for outstanding options. Therefore the Company has limited shares of common stock which otherwise could be sold to meet future financing needs and does not have a sufficient number of shares reserved in the event of the exercise of all of the Company's outstanding options.

Item Quantitative and Qualitative Disclosures About Market Risk.

7A.

Information not required by smaller reporting company.

Item Financial Statements and Supplementing Data

8.

The financial statements required by this report are included, commencing on F-1.

Item Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

9.

None.

Item Controls and Procedures

9A.

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) that are designed to be effective in providing reasonable assurance that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to our management to allow timely decisions regarding required disclosure.

The Company's management, under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial (and principal accounting) Officer, carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) of the Exchange Act) as of December 31, 2013. Based upon that evaluation and the identification of the material weakness in the Company's internal control over financial reporting as described below under "Management's Report on Internal Control over Financial Reporting," the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were ineffective as of the end of the period covered by this report.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting of the Company. Management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our internal control over financial reporting as of December 31, 2013 based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2013, our internal control over financial reporting is not effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles because of the Company's limited resources and limited number of employees.

To mitigate the current limited resources and limited employees, we rely heavily on direct management oversight of transactions, along with the use of legal and accounting professionals. As we grow, we expect to increase our number of employees, which will enable us to implement adequate segregation of duties within the internal control framework.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the company's registered public accounting firm pursuant to temporary rules of the SEC that permit the company to provide only management's report in this annual report.

Limitations on Effectiveness of Controls and Procedures

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include, but are not limited to, the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Changes in Internal Control over Financial Reporting

There were no changes to our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B.

Other Information

None.

PART III.

Item Directors, Executive Officers and Corporate Governance 10.

Directors and executive officers

The following sets forth the names and ages of our officers and directors. Our directors are elected annually by our shareholders, and the officers are appointed annually by our board of directors.

| Name | Age | Position |
|-----------------|-----|---|
| John A. DiBella | 42 | Chief Executive Officer, Chief Financial Officer and Director |

John A. DiBella has served as an employee of our Company since January 2002 and a member of the Board of Directors since August 2006. Since November 2011 he has served as chief executive officer and chief financial officer. From 2000 through January 2002 Mr. DiBella provided consulting services to our Company. Mr. DiBella was promoted from Chief Operating Officer to President in November 2011. Mr. DiBella co-founded and served as President of PBCM, a financial management company located in New Jersey from 1997 to 1999. Prior to co-founding PBCM, Mr. DiBella worked for Donaldson, Lufkin and Jenrette, a NYSE member firm.

Board of Directors and Committees

During the year ended December 31, 2013, our board of directors held 4 meetings.

To date, we have not established an audit committee. Due to our financial position, we have been unable to attract qualified independent directors to serve on our board. Our board of directors, consisting solely of John A. DiBella, reviews the professional services provided by our independent auditors, the independence of our auditors from our management, our annual financial statements and our system of internal accounting controls. None of the board members are considered a “financial expert.”

Because the board of directors consists of only one member, the board has not delegated any of its functions to committees. The entire board of directors acts as our audit committee as permitted under Section 3(a)(58)(B) of the Exchange Act. We do not have any independent directors who would qualify as an audit committee financial expert. We believe that it has been, and may continue to be, impractical to recruit such a director unless and until we are significantly larger.

Code of Ethics

During the year ended December 31, 2003 we adopted a code of ethics. The code of ethics was filed with the Company’s Form 10-KSB annual report for the year ended December 31, 2003. The code of ethics may be obtained by contacting the Company’s executive offices. The code applies to our officers and directors. The code provides written standards that are designed to deter wrongdoing and promote: (i) honest and ethical conduct; (ii) full, fair, accurate, timely and understandable disclosure; (iii) compliance with applicable laws and regulations; (iv) promote reporting of internal violations of the code; and (v) accountability for the adherence to the code.

Shareholder Communications

Although we do not have a formal policy regarding communications with our board of directors, shareholders may communicate with the board by writing to us at Enviro Voraxial Technology, Inc., 821 N.W. 57th Place, Fort Lauderdale, Florida 33309, Attention: Mr. John A. DiBella. Shareholders who would like their submission directed to a member of the Board may so specify, and the communication will be forwarded, as appropriate.

Section 16(a) of the Exchange Act

Section 16(a) of the Securities Exchange Act of 1934 requires our directors and executive officers, and persons who own more than ten percent of our outstanding common stock to file with the SEC initial reports of ownership and reports of changes in ownership of common stock. These persons are required by SEC regulation to furnish us with copies of these reports they file. To our knowledge, based solely on a review of the copies of reports furnished to us, Section 16(a) filing requirements applicable to our officers, directors and greater than ten percent beneficial owners were complied with on a timely basis for the period which this report relates.

Item Executive compensation

11.

The table below sets forth compensation for the past two years awarded to, earned by or paid to our chief executive officer and each executive officer whose compensation exceeded \$100,000 for the years ended December 31, 2013 and December 31, 2012 (the “Named Executives”).

Summary Compensation Table

| Name and Principal Position | Year | Salary (\$) | Bonus (\$) | Stock Awards (\$) | Option Awards (\$)(1) | Non-Equity Incentive Plan Compensation (\$) | Change in Pension Value and Nonqualified Deferred | All Other Compensation (\$) | Total (\$) |
|---|------|----------------|---------------|-------------------------|-----------------------------|--|---|-----------------------------------|---------------|
| | | | | | | | Compensation Earnings (\$) | | |
| John A. DiBella | 2013 | \$305,000(2) | -- | -- | -- | -- | -- | -- | \$305,000 |
| President, Chief Executive Officer and Chief Financial Officer | 2012 | \$305,000(3) | -- | -- | \$615,668(4) | -- | -- | -- | \$920,668 |

- (1) The amounts in these columns represent the fair value of the award as of the grant date as computed in accordance with FASB ASC Topic 718 and the SEC disclosure rules. These amounts represent awards that are paid in shares of common stock or options to purchase shares of our common stock and do not reflect the actual amounts that may be realized by the Named Executives.
- (2) \$88,000 paid and the remaining amount accrued.
- (3) \$80,000 paid and remaining amount accrued.
- (4) On January 1, 2012, the Company extended the expiration date of an aggregate of 5,800,000 options held by Mr. DiBella to various dates in 2017 and 2018. In addition, the exercise price of options to purchase 1,000,000 shares was reduced from \$0.40 per share to \$0.18 per share and the exercise price of options to purchase 2,800,000 shares was reduced from \$0.68 per share to \$0.18 per share.

Outstanding Equity Awards At December 31, 2013

Listed below is information with respect to unexercised options for each Named Executive as of December 31, 2013.

| Name | Option Awards | | | | Stock Awards | | | |
|-------------------|---|---|----------------------------|------------------------|---|--|--|---|
| | | | | | Equity Incentive Plan Awards: Number of | Equity Incentive Plan Awards: Market Payout Value of | Equity Incentive Plan Awards: Market Payout Value of | Equity Incentive Plan Awards: Market Payout Value of |
| | Number of Securities Underlying Unexercised Options (#) Exercisable | Number of Securities Underlying Unexercised Options (#) Unexercisable | Option Exercise Price (\$) | Option Expiration Date | Number of Shares or Units of Stock That Have Not Vested (#) | Market Value of Shares or Units of Stock That Have Not Vested (\$) | Shares, Units or Other rights That Have Not Vested (#) | Shares, Units or Other rights That Have Not Vested (\$) |
| J o h n A DiBella | 2,000,000 | -- | \$0.15 | 1/31/2017(1) | -- | -- | -- | -- |
| | 1,000,000 | -- | \$0.18(2) | 6/30/2017(2) | -- | -- | -- | -- |
| | 2,800,000 | -- | \$0.18(3) | 6/2/2018(3) | -- | -- | -- | -- |
| | 1,900,000 | -- | \$0.15 | 11/14/2021 | -- | -- | -- | -- |
| | | | | | | | | |

- (1) Effective January 1, 2012, the expiration date of the options was extended to January 31, 2017.
- (2) Effective January 1, 2012, the expiration date of the options was extended to June 30, 2017 and the exercise price was reduced from \$0.40 to \$0.18.
- (3) Effective January 1, 2012, the expiration date of the options was extended to June 2, 2018 and the exercise price was reduced from \$0.68 to \$0.18.

Employment agreements

Our executive officer does not currently have a written employment agreement with the Company. For the years ended December 31, 2013 and 2012, the Company incurred salary expenses from the Chief Executive Officer of the Company of \$305,000. For the year ended December 31, 2013, \$88,000 has been paid. The unpaid balance has been accrued and as of December 31, 2013 and 2012, the accrued salary is \$693,107 and \$476,107, respectively. As of December 31, 2013 and 2012, the Company owes its former chief executive officer \$158,898.

Director Compensation

Directors are not compensated by our Company.

Item Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters 12.

Beneficial Ownership

The table below sets forth information with respect to the beneficial ownership of our securities as of March 28, 2014 by: (1) each person known by us to be the beneficial owner of five percent or more of our

outstanding securities, and (2) executive officers and directors, individually and as a group. Unless otherwise indicated, we believe that the beneficial owner has sole voting and investment power over such shares. As of March 28, 2014, we had 33,464,497 shares of common stock issued and outstanding. Unless otherwise noted below, the address for each shareholder is 821 NW 57th Place, Fort Lauderdale, Florida 33309.

| Name and Address of Beneficial Owner | Number of Shares Beneficially Owned | Percentage of Ownership |
|--|-------------------------------------|-------------------------|
| Estate of Alberto DiBella (1) | 6,095,500(1) | 16.4% |
| John A. DiBella | 10,064,000(2) | 24.4% |
| All officers and directors as a group (1 person) | 10,064,000(2) | 24.4% |

(1) Voting and dispositive control held by Adele DiBella. Includes 2,295,500 shares of common stock. Includes 1,900,000 shares of common stock underlying options exercisable at \$0.18 that expire June 12, 2015. Also includes options to purchase 1,900,000 shares of common stock, exercisable at \$0.15 per share, on a cashless basis that expire on November 16, 2016.

(2) Includes 2,364,000 shares of common stock. Includes options to purchase (i) 2,000,000 shares of common stock at \$0.15 per share that expire on January 1, 2017; (ii) 1,000,000 shares of common stock at \$0.18 per share that expire on June 30, 2017; (iii) 1,900,000 shares of common stock, exercisable at \$0.15 per share on a cashless basis that expire on November 14, 2021; and (iv) 2,800,000 shares of common stock underlying options exercisable at \$0.18 per share that expire on June 2, 2018. Excludes 100,000 shares held in trust for the benefit of his minor children.

Securities Authorized for Issuance Under Equity Compensation Plans

The table below provides information pertaining to all compensation plans under which equity securities of our company are authorized for issuance as of the end of the most recent fiscal year.

| | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted-average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in 1st column) |
|--|---|---|---|
| Equity compensation plans approved by security holders | 0 | N/A | 0 |
| Equity compensation plans not approved by security holders | 13,465,000 | \$0.17 | 0 |
| Total | 13,465,000 | | |

Item Certain Relationships and Related Transactions, and Director Independence

13.

The Company has no independent directors.

For the year ended December 31, 2011, the Company incurred consulting expenses from Alberto DiBella, its former chief executive officer, of \$305,000. Of these amounts, \$119,000 was paid for the year ended December 31, 2011. The unpaid balance has been included in accrued expenses. His estate is a beneficial owner of in excess of 10% of the Company's common stock as of the date of this report.

PART IV.

Item Principal Accountant Fees and Services

14.

Year ended December 31, 2013

Audit Fees: The aggregate fees, including expenses, billed by Liggett Vogt & Webb, P.A., our principal accountant in connection with the audit of our consolidated financial statements for the fiscal years ended

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December 31, 2013 and 2012 and for the review of our financial information included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013 and 2012 was \$30,600 and \$26,800.

Audit Related Fees: The aggregate fees, including expenses, billed by our principal accountant for services reasonably related to the audit for the years ended December 31, 2013 and 2012 were \$-0-.

Tax Fees: The aggregate fees, billed by our principal accountant for services reasonably related to tax services during the years ended December 31, 2013 and 2012 were \$-0-.

All Other Fees: The aggregate fees, including expenses, billed for all other services rendered to us by our principal accountant during years 2013 and 2012 was \$-0-.

Item Exhibits and Financial Data Schedules

15.

| (a) | Exhibit No. | Description of Exhibit |
|-----|-------------|--|
| | 2 | Plan of Merger (1) |
| | 3(i) | Articles of Incorporation (1) |
| | 3(ii) | Bylaws (1) |
| | 4 | Share Certificate (1) |
| | 14 | Code of Ethics (2) |
| | 21 | Subsidiaries (1) |
| | 31.1 | Rule 13a-14(a)/15d-4(a) Certification of Principal Executive Officer |
| | 31.2 | Rule 13a-14(a)/15d-4(a) Certification of Principal Financial Officer |
| | 32.1 | Section 1350 Certification of Principal Executive Officer |
| | 32.2 | Section 1350 Certification of Principal Financial Officer |
| | 101.INS * | XBRL Instance Document |
| | 101.SCH * | XBRL Taxonomy Extension Schema Document |
| | 101.CAL * | XBRL Taxonomy Calculation Linkbase Document |
| | 101.DEF * | XBRL Taxonomy Extension Definition Linkbase Document |
| | 101.LAB * | XBRL Taxonomy Extension Label Linkbase Document |
| | 101.PRE * | XBRL Taxonomy Extension Presentation Linkbase Document |

* These exhibits are not deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section. Such exhibits will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that we incorporate them by reference.

(1) Previously filed on Form 10-SB Registration Statement, as amended.

(2) Previously filed on Form 10-KSB annual report for the year ended December 31, 2003.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ENVIRO VORAXIAL TECHNOLOGY, INC.

By: /s/ John A. DiBella
John A. DiBella
Chief Executive Officer and Chief Financial Officer
(Principal Executive Officer and
Principal Financial Officer)
March 28, 2014

Pursuant to the requirements of Section 13 or 15(d) 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.

By: /s/ John A. DiBella
John A. DiBella, Director
March 28, 2014

INDEX TO FINANCIAL STATEMENTS

ENVIRO VORAXIAL TECHNOLOGY, INC.
CONSOLIDATED FINANCIAL STATEMENTS

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| PAGE | F-4 | CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012 |
| PAGE | F-5 | CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIENCY FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012 |
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of
Enviro Voraxial Technology, Inc.:

We have audited the accompanying consolidated balance sheets of Enviro Voraxial Technology, Inc. and subsidiary (the "Company") as of December 31, 2013 and 2012, and the related consolidated statements of operations, changes in shareholders' deficiency and cash flows for each of the years 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 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 consolidated financial statements referred to above present fairly in all material respects, the financial position of Enviro Voraxial Technology, Inc. and subsidiary as of December 31, 2013 and 2012 the results of its operations and its cash flows for each of the years then ended December 31, 2013 and 2012, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note B to the financial statements, the Company has a net loss of \$357,148 for the year ended December 31, 2013 and a working capital deficit of \$749,565 and stockholders' deficit of \$661,776 as of December 31, 2013. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans concerning these matters are also described in Note B. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

LIGGETT, VOGT & WEBB P.A.
Certified Public Accountants

Boynton Beach, Florida
March 28, 2014

ENVIRO VORAXIAL TECHNOLOGY, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

| | December 31, 2013 | December 31, 2012 |
|---|-------------------|-------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 135,954 | \$ 425,309 |
| Accounts receivable, net | 123,072 | 41,580 |
| Inventory, net | 218,027 | 315,755 |
| Prepaid expenses | - | 21,000 |
| Total current assets | 477,053 | 803,644 |
| FIXED ASSETS, NET | 77,763 | 100,380 |
| OTHER ASSETS | 10,026 | 10,026 |
| Total assets | \$ 564,842 | \$ 914,050 |
| LIABILITIES AND SHAREHOLDERS' DEFICIENCY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable and accrued expenses | \$ 374,612 | \$ 631,685 |
| Accrued expenses - related party | 852,006 | 641,937 |
| Total current liabilities | 1,226,618 | 1,273,622 |
| Total liabilities | 1,226,618 | 1,273,622 |
| COMMITMENTS AND CONTINGENCIES (See Note J) | | |
| SHAREHOLDERS' DEFICIENCY: | | |
| Common stock, \$.001 par value, 42,750,000 shares authorized; 33,464,497 and 33,464,497 shares issued and outstanding as of December 31, 2013 and December 31, 2012 | 33,465 | 33,465 |
| Additional paid-in capital | 14,817,875 | 14,762,931 |
| Accumulated deficit | (15,513,116) | (15,155,968) |
| Total shareholders' deficiency | (661,776) | (359,572) |
| | \$ 564,842 | \$ 914,050 |

Total liabilities and
shareholders' deficiency

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

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ENVIRO VORAXIAL TECHNOLOGY, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS

| | Years Ended December 31 | |
|---|-------------------------|----------------|
| | 2013 | 2012 |
| Revenues: | | |
| Sales | \$ 974,954 | \$ 476,131 |
| Rentals | 216,605 | 297,237 |
| Total | 1,191,559 | 773,368 |
| Cost of goods sold | 484,541 | 389,754 |
| Gross profit | 707,018 | 383,614 |
| Costs and expenses: | | |
| General and administrative | 565,963 | 437,649 |
| Consulting expense | 39,986 | 869,568 |
| Payroll expenses | 425,648 | 489,138 |
| Research and development | 22,421 | 75,009 |
| Total costs and expenses | 1,054,018 | 1,871,364 |
| Loss from operations | (347,000) | (1,487,750) |
| Interest expense | (10,148) | (8,388) |
| Total other expense | (10,148) | (8,388) |
| Loss before provision for income taxes | (357,148) | (1,496,138) |
| Provision for Income taxes | - | - |
| Net Loss | \$ (357,148) | \$ (1,496,138) |
| Weighted average number of common shares | | |
| outstanding-basic and diluted | 33,464,497 | 33,179,789 |
| Loss per common share - basic and diluted | (0.01) | (0.05) |

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

ENVIRO VORAXIAL TECHNOLOGY, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIENCY
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

| | Common Stock Shares | Par Value | Additional Paid-in Capital | Accumulated Deficit | Total |
|---|------------------------|--------------|----------------------------------|------------------------|-------------|
| Balance - December 31, 2011 | 32,864,497 | \$ 32,865 | \$ 14,138,963 | \$(13,659,830) | \$11,998 |
| Issuance of common stock for consulting services | 250,000 | 250 | 24,750 | - | 25,000 |
| Issuance of common stock for consulting services | 100,000 | 100 | 9,900 | - | 10,000 |
| Revaluation of stock issued for deferred compensation | - | - | 475,019 | - | 475,019 |
| Stock compensation expense | - | - | 69,549 | - | 69,549 |
| Issuance of common stock for consulting services | 250,000 | 250 | 44,750 | - | 45,000 |
| Net Loss | - | - | - | (1,496,138) | (1,496,138) |
| Balance - December 31, 2012 | 33,464,497 | 33,465 | 14,762,931 | (15,155,968) | (359,572) |
| Revaluation of stock issued for deferred compensation | - | - | 35,958 | - | 35,958 |
| Stock compensation expense | - | - | 18,986 | - | 18,986 |
| Net loss | - | - | - | (357,148) | (357,148) |
| Balance - December 31, 2013 | 33,464,497 | \$ 33,465 | \$ 14,817,875 | \$(15,513,116) | \$(61,776) |

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

ENVIRO VORAXIAL TECHNOLOGY, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Years Ended December 31 | |
|---|-------------------------|----------------|
| | 2013 | 2012 |
| Cash Flows From Operating Activities: | | |
| Net loss | \$ (357,148) | \$ (1,496,138) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Depreciation | 22,617 | 35,301 |
| Stock-based compensation | 75,945 | 624,568 |
| Deferred compensation | - | 245,000 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (81,493) | 333,883 |
| Inventories | 97,728 | 11,559 |
| Other Assets | | 3,669 |
| Accounts payable and accrued expenses | (47,004) | 552,376 |
| Net cash provided by (used in) operating activities | (289,355) | 310,218 |
| Cash Flows From Investing Activities: | - | - |
| Cash Flows From Financing Activities: | | |
| Repayments of notes payable | - | (32,107) |
| Net cash used in financing activities | - | (32,107) |
| Net increase (decrease) in cash and cash equivalents | (289,355) | 278,111 |
| Cash and cash equivalents, beginning of period | 425,309 | 147,198 |
| Cash and cash equivalents, end of period | \$ 135,954 | \$ 425,309 |
| Supplemental Disclosures | | |
| Cash paid during the year for interest | \$ 10,148 | \$ 8,388 |
| Cash paid during the year for taxes | \$ - | \$ - |

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

Enviro Voraxial Technology, Inc.
Note to Consolidated Financial Statements
December 31, 2013 and 2012

NOTE A - ORGANIZATION AND OPERATIONS

Enviro Voraxial Technology, Inc. (the "Company") is a provider of environmental and industrial separation technology. The Company has developed, and now manufactures and sells its patented technology, the Voraxial® Separator, a technology that efficiently separates liquid/liquid, liquid/solid or liquid/liquid/solid fluid streams with distinct specific gravities. Current and potential commercial applications and markets include oil exploration and production, oil refineries, mining, manufacturing, waste-to-energy and food processing industry.

Florida Precision Aerospace, Inc. (FPA) is the wholly- owned subsidiary of the Company and is used to manufacture, assemble and test the Voraxial Separator.

NOTE B - GOING CONCERN

The Company has experienced recurring losses and a working capital and stockholders' deficit as of December 31, 2013. The Company has a net loss of \$357,148 for the year ended December 31, 2013 and a working capital deficit of \$749,565 and shareholders' deficiency of \$661,776 as of December 31, 2013. There is a substantial doubt about the Company's ability to continue as a going concern. There is no assurance that the Company's sales and marketing efforts will be successful enough to achieve a level of revenue sufficient to provide cash inflows to sustain operations; however the Company has begun commercializing the Voraxial and is experiencing an increase in revenues that management believes will continue in 2014. The Company will continue to require the infusion of capital until operations become profitable. During the remainder of 2014 the Company anticipates seeking additional capital for growth and increasing sales of the Voraxial Separator. As a result of the above, there is substantial doubt about the entities ability to continue as a going concern and the accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the parent company, Enviro Voraxial Technology, Inc., and its wholly-owned subsidiary, Florida Precision Aerospace, Inc. All significant intercompany accounts and transactions have been eliminated.

Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates include the valuation of deferred tax assets, the allowances for doubtful accounts, allowance for inventory impairment and estimated warranty costs. Actual results may differ.

Revenue Recognition

The Company derives its revenue from the sale and short-term rental of the Voraxial Separator. The Company presents revenue in accordance with FASB new codification of "Revenue Recognition in Financial Statements". Under Revenue Recognition in Financial Statements, revenue is realized when persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable and collectability is reasonably assured.

Revenues that are generated from sales of equipment are typically recognized upon shipment. Our standard agreements generally do not include customer acceptance or post shipment installation provisions. However, if such provisions have been included or there is an uncertainty about customer order, revenue is deferred until we have

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Enviro Voraxial Technology, Inc.
Note to Consolidated Financial Statements
December 31, 2013 and 2012
(continued)

evidence of customer order and all terms of the agreement have been complied with. As of December 31, 2013 there was \$32,090 of deposits from one customer.

The Company recognizes revenue from the short term rental of equipment, ratably over the life of the agreement, which is usually three to twelve months.

Accounts Receivable

Accounts receivable are presented net of an allowance for doubtful accounts. The company maintains allowances for doubtful accounts for estimated losses. The company reviews the accounts receivable on a periodic basis and makes general and specific allowance when there is a doubt as to the collectability of individual balances. In evaluating the collectability of individual receivable balances, the Company considers many factors, including the age of the balance, customer's historical payment history, and its current credit-worthiness and current economic trends. Accounts are written off after exhaustive efforts at collections. At December 31, 2013 and 2012, the Company has \$0 and \$0 in the allowance for doubtful accounts, respectively.

Fair Value of Instruments

The carrying amounts of the Company's financial instruments, including cash and cash equivalents, inventory, accounts payable and accrued expenses at December 31, 2013 and 2012, approximate their fair value because of their relatively short-term nature.

ASC 820 "Disclosures about Fair Value of Financial Instruments," requires disclosures of information regarding the fair value of certain financial instruments for which it is practicable to estimate the value. For purpose of this disclosure, the fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale of liquidation.

The Company accounts for certain assets and liabilities at fair value. The hierarchy below lists three levels of fair value based on the extent to which inputs used in measuring fair value is observable in the market. We categorize each of our fair value measurements in one of these three levels based on the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

Level 1—inputs are based upon unadjusted quoted prices for identical instruments traded in active markets. We have no Level 1 instruments as of December 31, 2013 and 2012.

Level 2—inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques (e.g. the Black-Scholes model) for which all significant inputs are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Where applicable, these models project future cash flows and discount the future amounts to a present value using market-based observable inputs including interest rate curves, foreign exchange rates, and forward and spot prices for currencies and commodities. We have no Level 2 instruments as of December 31, 2013 and 2012.

Level 3—inputs are generally unobservable and typically reflect management’s estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques, including option pricing models and discounted cash flow models. We have no Level 3 instruments as of December 31, 2013 and 2012.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less at the date of purchase to be cash equivalents. The Company maintains its cash balances with various financial institutions. Balances at these institutions may at times exceed the Federal Deposit Insurance Corporate limits.

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Enviro Voraxial Technology, Inc.
 Note to Consolidated Financial Statements
 December 31, 2013 and 2012
 (continued)

Inventory

Inventory consists of components for the Voraxial Separator and is priced at lower of cost or market. Inventory may include units being rented on a short term basis or components held by third parties in connection with pilot programs as part of the continuing evaluation by such third parties as to the effectiveness and usefulness of the service to be incorporated into their respective operations. The third parties do not have a contractual obligation to purchase the equipment. The Company maintains the title and risk of loss. Therefore, these units are included in the inventory of the Company. As of December 31, 2013, there were no units held by third parties.

Fixed Assets

Fixed assets are stated at cost less accumulated depreciation. The cost of maintenance and repairs is expensed to operations as incurred. Depreciation is computed by the straight-line method over the estimated economic useful life of the assets (5-10 years). Gains and losses recognized from the sales or disposal of assets is the difference between the sales price and the recorded cost less accumulated depreciation less costs of disposal.

Net Loss Per Share

The Company follows ASC 260 "Earnings per share" to calculate its net loss per share. Basic and diluted loss per share has been computed by dividing the net loss available to common stockholders by the weighted average number of common shares outstanding. The warrants and stock options have been excluded from the calculation since they would be anti-dilutive.

Such equity instruments may have a dilutive effect in the future and include the following potential common shares:

| | 2013 | 2012 |
|---------------|------------|------------|
| Stock options | 13,465,000 | 12,800,000 |
| | 13,465,000 | 12,800,000 |

Income Taxes

Deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

Research and Development Expenses

Research and development costs, which includes travel expenses, consulting fees, subcontractors and salaries are expensed as incurred. There was \$22,421 and \$75,009 in research and development costs during December 31, 2013 and 2012, respectively.

Advertising Costs

Advertising costs are expensed as incurred and are included in general and administrative expenses. There was \$19,524 and \$25,139 in advertising costs during December 31, 2013 and 2012, respectively.

Stock-Based Compensation

The Company adopted ASC Topic 718 formerly Statement of Financial Account Standard (SFAS) No. 123(R) effective January 1, 2006. This statement requires compensation expense relating to share-based payments to be

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Enviro Voraxial Technology, Inc.
 Note to Consolidated Financial Statements
 December 31, 2013 and 2012
 (continued)

recognized in net income using a fair-value measurement method. Under the fair value method, the estimated fair value of awards is charged to income on a straight-line basis over the requisite service period, which is generally the vesting period. The company elected the modified prospective method as prescribed in ASC Topic 718 formerly SFAS No. 123 (R) and therefore, prior periods were not restated. Under the modified prospective method, this statement was applied to new awards granted after the time of adoption, as well as to the unvested portion of previously granted equity-based awards for which the requisite service has not been rendered as of January 1, 2006.

Equity instruments issued to other than employees are recorded on the basis of the fair value of the instruments, as required by FASB Accounting Standards Codification No. 505, Equity Based Payments to Non-Employees. In general, the measurement date is when either a (a) performance commitment, as defined, is reached or (b) the earlier of (i) the non-employee performance is complete or (ii) the instruments are vested. The measured value related to the instruments is recognized over a period based on the facts and circumstances of each particular grant as defined in the FASB Accounting Standards Codification.

Accounting for the Impairment of Long-Lived Assets

The long-lived assets held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of assets may not be recoverable. It is reasonably possible that these assets could become impaired as a result of technology or other industry changes. Determination of recoverability of assets to be held and used is by comparing the carrying amount of an asset to future net undiscounted cash flows to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. The Company has no such assets and, therefore, no impairments of long-lived assets were recorded as of December 31, 2013 and 2012.

Reclassifications

Certain amounts from prior periods have been reclassified to conform to the current period presentation. These reclassifications had no impact on the Company's net loss or cash flows.

NOTE D – RECENT ACCOUNTING PRONOUNCEMENTS

Recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the AICPA, and the SEC, did not, or are not believed by management, to have a material impact on the Company's present or future financial statements.

NOTE E- INVENTORY

Inventory as of December 31 consists of:

| | 2013 | 2012 |
|------------------|------------|------------|
| Raw Materials | \$ 175,232 | \$ 220,755 |
| Work in Progress | 6,795 | - |
| Finished Goods | 36,000 | 95,000 |
| Total | \$ 218,027 | \$ 315,755 |

NOTE F - FIXED ASSETS

Fixed assets as of December 31 consists of:

| | 2013 | 2012 |
|--------------------------------|------------|------------|
| Machinery and equipment | \$ 495,372 | \$ 495,372 |
| Furniture and fixtures | 14,498 | 14,498 |
| Autos and Trucks | 5,294 | 5,294 |
| Total | 515,164 | 515,164 |
| Less: accumulated depreciation | (437,401) | (414,784) |
| Fixed Assets, net | \$ 77,763 | \$ 100,380 |

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Enviro Voraxial Technology, Inc.
Note to Consolidated Financial Statements
December 31, 2013 and 2012
(continued)

Depreciation expense was \$22,617 and \$35,301 for the years ended December 31, 2013 and 2012 respectively.

NOTE G – ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Significant components of accounts payable and accrued expenses at December 31, consists of:

| | 2013 | 2012 |
|-------------------------------------|------------|------------|
| Trade payables and accrued expenses | \$ 342,522 | \$ 227,615 |
| Customer deposits | 32,090 | 404,070 |
| | \$ 374,612 | \$ 631,685 |

NOTE H - RELATED PARTY TRANSACTIONS

For the years ended December 31, 2013 and 2012, the Company incurred salary expenses from the Chief Executive Officer of the Company of \$305,000. For December 31, 2013, \$88,000 has been paid for the year. The unpaid balance has been included in accrued expenses- related party. As of December 31, 2013 and 2012, the accrued salary is \$693,107 and \$476,107, respectively.

As of December 31, 2013 and 2012, the Company owes the former CEO \$158,898, which is also included in accrued expenses- related party.

NOTE I - CAPITAL TRANSACTIONS

Common stock

Effective April 30, 2010, the Company issued restricted stock grants to acquire an aggregate of 1,100,000 shares of restricted common stock to John DiBella and 300,000 restricted shares to an employee. The shares subject to the grant to Mr. DiBella were initially subject to forfeiture by Mr. DiBella as follows: 300,000 shares on April 30, 2013, 400,000 shares on April 30, 2014 and 200,000 shares on April 30, 2015, in the event Mr. DiBella was no longer a full-time employee on such dates. The 300,000 stock grants issued to the employee are subject to forfeiture as follows: (1) 100,000 shares on April 30, 2012, (2) 100,000 shares on April 30, 2013, and (3) 100,000 shares on April 30, 2014 in the event such employee is no longer a full time employee on such date. The stock grants were valued at \$0.38 per share and are amortized over the term of the stock grant. The securities may not be transferred absent registration or applicable exemption. On January 1, 2012, the Company vested 100% of the remaining unvested shares to John DiBella and recorded an expense of \$209,000. As of December 31, 2012, the Company recorded the remaining unvested shares as prepaid expense of \$19,000. During 2013, the Company recorded an expense of \$19,000 for the employee portion of the vested shares.

On January 1, 2012, the Company issued an aggregate of 100,000 shares of common stock to a consultant in consideration of services to be provided for 18 months with a fair value of \$10,000. The expense will be amortized over the life of the agreement. The Securities were issued pursuant to an exemption from registration under Section 4(2) of the Securities Act. The securities may not be transferred absent registration or applicable exemption. During 2013 the Company recognized \$2,000 in stock compensation expense.

On January 1, 2012, the Company issued 250,000 shares of common stock to a consultant in consideration for consulting services with a fair value of \$25,000. The expense was amortized over the six month life of the agreement. The shares of common stock were issued under the exemption from registration provided by Section 4(2) of the Securities Act. The shares issued contain a legend restricting their transferability absent registration or applicable exemption. These shares were fully earned as of December 31, 2012.

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On July 1, 2012, the Company entered into a six month agreement with a consultant. As compensation for services provided, the Company issued 250,000 shares of common stock, with a fair value of \$45,000. The expense is amortized over six month life of the agreement. As of December 31, 2012 these shares were fully earned.

Warrants and Options

In September 2011 the Company issued 400,000 warrants to investors to purchase an aggregate of 400,000 shares of common stock for a period of one year. The warrants expired in September 2012. The purchase price of these warrants are \$0.60 per share. The Company calculated the fair value of the extended warrants by using the Black-Scholes option-pricing model with the following weighted average assumptions: no dividend yield for all the years; expected volatility of 55%; risk-free interest rate of 5% and an expected life of one year.

Information with respect to warrants outstanding and exercisable at December 31, 2013 and 2012 is as follows:

| | Number Outstanding | Range of Exercise Price | Number Exercisable |
|----------------------------|-----------------------|-------------------------------|-----------------------|
| Balance, December 31, 2011 | 400,000 | \$0.60 | 400,000 |
| Issued | - | - | - |
| Expired | 400,000 | - | 400,000 |
| Balance, December 31, 2012 | - | - | - |
| Issued | - | - | - |
| Expired | - | - | - |
| Balance, December 31, 2013 | - | - | - |

In January 2012, the Company modified the terms of 8,050,000 previously issued stock options to officers and employees. Per ASC Topic 718, this exchange of stock options was treated as a modification. The incremental value of \$475,019, measured as the excess of the fair value of the modified award over the fair value of the original award immediately before the modification, and using the Black-Scholes option pricing model, was expensed immediately as all the options vested on the date of the exchange.

On January 10, 2012, the Company granted 950,000 stock options with a total fair value of \$69,549 to an employee and a consultant. The shares vested immediately and were valued using the Black-Scholes option pricing model.

We used the following assumptions for options granted during the year ended December 31, 2013 and 2012:

Expected volatility: 115.31%
Expected lives: 3.5 to 5 Years
Risk-free interest rate: 0.490% - 0.8990%
Expected dividend yield: None

We used the following assumptions for options granted during the year ended December 31, 2013:

Expected volatility: 125%-128%

Expected lives: 3 to 10 Years

Risk-free interest rate: 0.74% - 2.89%

Expected dividend yield: None

In December 2013, the Company modified the terms of 1,365,000 previously issued stock options to employees. Per ASC Topic 718, this exchange of stock options was treated as a modification. The incremental value of \$35,959, measured as the excess of the fair value of the modified award over the fair value of the original award immediately before the modification, and using the Black-Scholes option pricing model, was expensed immediately as all the options vested on the date of the exchange.

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(continued)

On February 15, 2013 the Company issued options to purchase 165,000 shares of common stock to two employees of the Company in consideration for services performed. The options are exercisable at \$0.20 per share and may be exercised on a cashless basis. The options shall expire at the earlier of (1) February 15, 2018 or (2) the upon the expiration of three calendar months from the date of which employee's continuous employment by the Company or any of its subsidiaries is terminated, provided that in the event of employee's death while in the employ of the Company his personal representatives may exercise the option as to any of the vested shares not previously exercised during his lifetime within three months following the date of his death.

On December 20, 2013 the Company issued options to purchase 500,000 shares of common stock to one employee of the Company in consideration for services performed. The options are exercisable at \$0.18 per share. The options vest 100,000 shares annual and expire five years after the last vesting date.

Information with respect to options outstanding and exercisable at December 31, 2013 and 2012 is as follows:

| | Number Outstanding | Range of Exercise Price | Number Exercisable |
|----------------------------|-----------------------|-------------------------------|-----------------------|
| Balance, December 31, 2011 | 12,800,000 | - | 12,650,000 |
| Issued | 1,000,000 | \$0.15 | - |
| Exercised | - | - | - |
| Expired | (950,000) | - | - |
| Balance, December 31, 2012 | 12,850,000 | - | 12,700,000 |
| Issued | 665,000 | \$0.20 | - |
| Expired | - | - | - |
| Balance, December 31, 2013 | 13,465,000 | - | 12,965,000 |

The total unvested stock option expense is \$56,632 as of December 31, 2013.

| | Number Outstanding at December 31, 2013 | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Number Exercisable at December 31, 2013 | Weighted Average Exercise Price |
|----------------|--|---|--|--|---------------------------------------|
| Exercise Price | | | | | |
| \$0.15 | 5,800,000 | 4.58 | 0.15 | 5,800,000 | \$0.15 |
| \$0.18 | 6,550,000 | 3.78 | 0.18 | 6,050,000 | \$0.18 |
| \$0.20 | 1,115,000 | 7.07 | 0.20 | 1,115,000 | \$0.20 |
| | 13,465,000 | - | - | 12,965,000 | |

The intrinsic value of vested shares as of December 31, 2013 was \$0.

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Note to Consolidated Financial Statements
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(continued)

The following table summarizes information about the stock options outstanding at December 31, 2012:

| Exercise Price | Number Outstanding at December 31, 2012 | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Number Exercisable at December 31, 2012 | Weighted Average Exercise Price |
|----------------|---|---|---------------------------------|---|---------------------------------|
| \$0.15 | 5,800,000 | 5.58 | 0.15 | 5,800,000 | \$0.15 |
| \$0.18 | 6,050,000 | 4.18 | 0.18 | 5,950,000 | \$0.18 |
| \$0.20 | 950,000 | 4.03 | 0.20 | 950,000 | \$0.20 |
| | 12,800,000 | - | - | 12,700,000 | |

NOTE J - COMMITMENTS AND CONTINGENCIES

Litigation

On or about November 17, 2011, a claim was filed in the Broward County Circuit Court in Fort Lauderdale, Florida against the company by Raw Energy Tech, LLC. The plaintiff alleges oral contract between the parties for the alleged design, fabrication and construction of a prototype power pack. Amount of damages sought are approximately \$58,000. We have moved to dismiss the complaint and intend to vigorously defend this action as we believe this claim is without merit. We have accrued an amount in the financial statements to cover our legal expenses as of December 31, 2013.

Operating Lease

In October 2012 the Company entered into a three (3) year lease for an office and manufacturing facility located at 821 NW 57th Place, Fort Lauderdale, FL 33309. The lease is approximately \$6,721 per month, which includes common area maintenance, taxes and insurance. The Company has the option to terminate the lease with three months' notice.

Future minimum lease payments for operating leases at December 31, 2013 are as follows:

| | |
|------------------------------|------------|
| 2014 | 80,652 |
| 2015 (10 months) | 67,210 |
| Total minimum lease payments | \$ 147,862 |

NOTE K – MAJOR CUSTOMERS

For the year ended December 31, 2013, three customers accounted for approximately 85% of revenues. For the year ended December 31, 2012, three customers accounted for approximately 85% of revenues.

Major customer concentrations as of and for the year ended December 31, 2013 are as follows:

| Customer | Sales Amount | Percent | Accounts Receivable | Percent |
|----------|--------------|---------|---------------------|---------|
|----------|--------------|---------|---------------------|---------|

| | | | | |
|---|-----------|-----|----------|-----|
| A | \$629,000 | 53% | - | - |
| B | \$221,979 | 19% | - | - |
| C | \$151,786 | 13% | - | - |
| D | - | - | \$60,254 | 49% |
| E | - | - | \$39,503 | 32% |

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Note to Consolidated Financial Statements
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Major customer concentrations as of and for the year ended December 31, 2012 are as follows:

| Customer | Sales | | Accounts | |
|----------|-----------|---------|------------|---------|
| | Amount | Percent | Receivable | Percent |
| A | \$350,569 | 45% | \$8,280 | 20% |
| B | \$203,549 | 26% | - | - |
| C | \$108,000 | 14% | - | - |
| D | - | - | \$33,000 | 80% |

NOTE L – INCOME TAX

At December 31, 2013 and 2012 we had deferred tax assets principally arising from the net operating loss carry forwards for income tax purposes multiplied by an approximate expected rate of 38% . As management of the Company cannot determine that it is more likely than not that we will realize the benefit of the deferred tax assets, a valuation allowance equal to the deferred tax asset has been established at December 31, 2013 and 2012.

The significant components of the deferred tax asset at December 31, 2013 and 2012 were as follows:

| | December 31, | |
|---|--------------|------------|
| | 2013 | 2012 |
| Current Deferred benefit: | \$ 120,683 | \$ 358,076 |
| | 120,683 | 358,076 |
| Valuation allowance | (120,683) | (358,076) |
| (Benefit) provision for income taxes,\$ | - | \$ - |
| net | | |

The difference between income tax expense computed by applying the federal statutory corporate tax rate and actual income tax expense is as follows:

| | December 31, | |
|------------------------------------|--------------|-------|
| | 2013 | 2012 |
| Combined statutory income tax rate | 38% | 38% |
| Valuation allowance | (38%) | (38%) |
| Effective tax rate | - | - |

Deferred income taxes result from temporary differences in the recognition of income and expenses for the financial reporting purposes and for tax purposes. The effects of temporary differences that gave rise to deferred tax assets are as follows:

| | December 31, | |
|----------------------------------|--------------|-----------|
| | 2013 | 2012 |
| Net operating loss carry-forward | 2,577,528 | 2,456,845 |

| | | |
|---------------------------|-------------|-------------|
| Valuation allowance | (2,577,528) | (2,456,845) |
| Deferred income tax asset | \$ - | \$ - |

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(continued)

The Company has made a 100% valuation allowance of the deferred income tax asset at December 31, 2013, as it is not expected that the deferred tax assets will be realized. The Company has a net operating loss carryforward of \$6,846,541 available to offset future taxable income through 2033.

The Company's federal income tax returns for the years ended December 31, 2011 through December 31, 2013 remains subject to examination by the Internal Revenue Services as of December 31, 2013.

