

Envision Solar International, Inc.
Form 10-K
March 31, 2014

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

FORM 10-K

For the fiscal year ended December 31, 2013

Commission File Number 333-147104

Envision Solar International, Inc.
(Exact name of Registrant as specified in its charter)

Nevada **26-1342810**
(State of Incorporation) (IRS Employer ID Number)

7675 Dagget Street, Suite 150

San Diego, California 92111

(858) 799-4583

(Address and telephone number of principal executive offices)

Securities registered pursuant to Section 12(g) of the Act:

Name of Each Exchange On

Title of Each Class Which Registered

COMMON STOCK OTC-QB Market

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. 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 under Rule 12b-2 of the Exchange Act. (Check one.)

Large accelerated filer Accelerated Filer
Non-accelerated filer 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

The aggregate market value of voting stock held by non-affiliates of the registrant was approximately \$12,324,285 as of June 28, 2013 (computed by reference to the last sale price of a share of the registrant's Common Stock on that date as reported by OTC Bulletin Board).

The number of registrant's shares of common stock, \$0.001 par value, outstanding as of March 31, 2014 was 83,713,998.

TABLE OF CONTENTS

PART 1	1
ITEM 1 Business	1
ITEM 1B Unresolved Staff Comments	8
ITEM 2 Properties	8
ITEM 3 Legal Proceedings	8
ITEM 4 Mine Safety Disclosures	8
PART II	9
ITEM 5 Market for Registrant’s Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities	9
ITEM 6 Selected Financial Data	11
ITEM 7 Management’s Discussion and Analysis of Financial Condition and Results of Operations	12
ITEM 7A Quantitative and Qualitative Disclosures About Market Risk	20
ITEM 8 Financial Statements and Supplementary Data	21
ITEM 9 Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	23
ITEM 9A Controls and Procedures	23
ITEM 9B Other Information	24
PART III	25
ITEM 10 Directors, Executive Officers, and Corporate Governance	25
ITEM 11 Executive Compensation	30
ITEM 12 Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	34
ITEM 13 Certain Relationships and Related Transactions, and Director Independence	35
ITEM 14 Principal Accounting Fees and Services	35
ITEM 15 Exhibits, Financial Statement Schedules	36
SIGNATURES	38

PART I

Unless specifically noted otherwise, this annual report on Form 10-K reflects the business and operations of Envision Solar International, Inc., a Nevada corporation (hereinafter the “Company,” “us,” “we,” “our” or “Envision”) and its subsidiaries.

ITEM 1. BUSINESS

Envision designs, engineers, fabricates, and installs solar products and proprietary technology solutions. The Company focuses on creating high quality products which transform both surface and top deck parking lots of commercial, institutional, governmental and other customers into shaded renewable generation plants while creating sustainable media and branding assets and contributing to the growth of electric vehicle charging infrastructure. Management believes that the Company's chief differentiator is its ability to design and engineer architecturally accretive solar products which are a complex integration of simple, commonly available engineered components. The resulting products are built to have the longest life expectancy in the industry while also delivering a highly appealing architectural enhancement to our customer's locations. Management believes that Envision's products deliver multiple layers of value such as media, branding, and advertising platforms, architectural enhancement of the parking lot, reduction of heat islanding and improved parking experiences through shading, high visibility "green halo" branding, reduction of net operating costs through reduced utility bills and the creation of an iconic luxury landmark where simple parking previously existed.

Products and Technologies

The Company's Solar Tree® structure has been in deployment and continued improvement for over seven years. During the last three years, the Solar Tree® structure was redesigned from the ground up to incorporate all of the best attributes of previous designs. We believe the resulting product has become the standard of quality in solar shaded parking and while there are an increasing number of competitors in the space, we believe there is no competing product which includes all of the important attributes of the Solar Tree® structure. We understand it to be the only single column, bio mimicked, tracking, and architectural solar support structure designed specifically for parking lots.

The Company has designed and incorporated EnvisionTrak™, its proprietary and patent pending tracking solution, to the Solar Tree® structure, furthering the unique nature of the product and we believe increasing the Company's technological leadership within the industry. We believe EnvisionTrak™ is a complex integration of the highest quality gearing, electrical motors and controls which are combined in a robust, highly engineered and supremely reliable manner. While there are many tracking solutions available to the solar industry, we believe EnvisionTrak™ is the only tracking solution which causes the solar array to orient itself in alignment with the sun without swinging, rotating or leaving its lineal alignment with the parking spaces below. We believe this is a vital attribute in solar shaded parking

as any swinging or rotating of the arrays could result in impeding the flow of traffic, particularly first responders such as fire trucks, in the drive aisles. It is a violation of many local codes to have restricted overhead clearance in the drive aisles. EnvisionTrak™ has been demonstrated, through data obtained from our past customers, to increase electrical production, but perhaps a greater value is the high visual appeal created by Solar Tree® structures which are tracking the sun in perfect synchronicity.

The Solar Tree® structure's canopy measures 35'X35' and covers between six and eight parking spaces. Envision has also developed a single parking space version of the product that leverages the same technology, components, and architectural qualities, but is one tenth the size and less expensive. The Solar Tree® Socket is designed for tight locations and offers customer budget flexibility. It has been produced by the Company to broaden the addressable market for its technology.

Envision continues to identify other complimentary product offerings and enhancements to current offerings, and is in the design phase on certain such products.

Leveraging the structural and technological attributes of its existing products, the Company has developed a new product called EV ARC™ and delivered the first units of this product line during the quarter ended September 30, 2013. We believe EV ARC™ (Electric Vehicle Autonomous Renewable Charger) solves many of the problems associated with electric vehicle charging infrastructure deployments and is a product with a potentially very large addressable market. Until now, the deployment of electrical vehicle (“EV”) chargers has been significantly hindered by complications in the site acquisition process caused by the complicated and invasive processes required to fulfill the installation. Each EV charger requires a pedestal which is mounted to a poured concrete foundation which first requires excavation. Chargers also require a trench run to deliver grid connected electricity, and often require transformers and other local electrical equipment upgrades. Additional entitlements, easements, leases and other site acquisition requirements will slow, or prevent entirely, the deployment of large numbers of chargers. When an EV charger is deployed successfully, the host may be liable for increased kilowatt hour charges and often, more expensive demand charges. Landlords often do not perceive enough value creation in the deployment of an EV Charger, and as such, are not inclined to grant permission to the service providers who approach them.

We believe EV ARC™ changes this paradigm completely because it is entirely self-contained and can be delivered to the site ready to operate. Its ballasted pad contains battery storage and creates a structurally sound platform which will support the rest of the structure. The solar array structure is similar to our Socket™ product, and through our EnvisionTrak™ tracking solution, is column mounted to the ballasted pad. There is an electrical cabinet which is attractively integrated into the unit and in which various components enable the conversion of sunlight to electricity which is stored in batteries, and the delivery of that electricity to the EV charging station. Incorporating battery storage means that EV ARC™ can charge day or night. EV ARC™ delivers a clean source of power to any model of EV charger that is integrated into the structure. Envision Solar continues to maintain a vendor agnostic stance in regards to EV charging, and as such, EV ARC™ is designed to accept whichever EV charger the end customer chooses. The EV ARC™ can be set up to charge a single EV or multiple electric scooters or smaller electric vehicles. In this early stage of the production evolution for the EV ARC™ and low volumes, the Company believes the appropriate selling price point is lower than the actual initial costs of production. Management believes that certain production elements will mature allowing for gross profit on future sales later in 2014. These elements include production economies of scale, lower costs of components including the cost of battery storage which is currently a significant cost contributor, as well as design changes to allow for improved production processes.

EV ARC™ is designed to address the sizable market of EV charging infrastructure. The current lack of such infrastructure is the single greatest impediment to the adoption of EVs in the US and elsewhere. A standardized, easily deployable EV charger, which is renewably energized rather than relying on carbon based electrical energy, would appear to have significant appeal to those entities which are interested in the proliferation of EV charging infrastructure. Management believes that the EV ARC™ should generate significant volumes of sales in the coming months and years. We believe no competing company has a similar product, so the Company’s first-to-market position should create an opportunity for a share in the market interest.

We strive to produce products integrating only the highest quality components available. The Company's production philosophy is to invest in quality design, components and integration so as to ensure the lowest costs of warranty and service in the industry, while maintaining and growing a brand which is already recognized as one of the leading producers of the highest quality solar products available.

The Company produces a series of products which management believes offer multiple layers of value to its customers leveraging the same underlying technology and fabrication techniques and infrastructure. This enables the Company to reach a broad customer base with varied product offerings without maintaining the overhead normally associated with a diverse set of products.

The Company's current list of products include:

1. The Solar Tree® Standard structure, a thirty five foot square solar array mounted on a single column,
2. The Branded Solar Tree® (HVBA) structure which includes customized branding, finishes and signage,
3. The Solar Tree® SMP (Sustainable Media Platform) structure, which includes static and digital advertising displays,
4. The Solar Tree® HVLC (High Value Low Cost) structure, a lower cost version of the standard Solar Tree® structure,
5. The Solar Tree® Socket structure, a single space version of the Solar Tree® structure,
6. The EV ARC™.

All Envision products can be upgraded with the addition of:

1. EnvisionTrak™ sun tracking technology,
2. SunCharge™ solar powered EV charging,
3. ARC™ technology energy storage,
4. LED lighting,
5. Media and Branding Screens.

Envision leverages a combination of in-house and outsourced resources to create its products. Management believes that the Company has significant operating leverage through the deliberate separation of intellectual property creation (in-house) and the actual deployment of the Company's products (outsourced). All intellectual property is developed in-house. Product designs are then vetted by third-party structural and electrical engineering firms to ensure that the designs meet the jurisdictional requirements and codifications for the deployment locations. We believe this further helps dissipate any potential liabilities for the structural and electrical elements by providing additional insured parties with partial responsibility for the designs. Architectural, structural, and electrical design elements are combined into shop and deployment documents that can be exported to a vetted, qualified stable of fabrication and deployment resources.

It is the Company's intention to create a limited fabrication facility in the future in which the structural components of its mainstay products will be optimized and fabricated. We believe an in-house fabrication facility may enable the Company to reduce direct costs associated with individual products. We believe the facility will further enable the Company to make improvements to existing products and also to introduce new products in a much more timely and efficient manner. Management believes that the product development process can be significantly faster and less expensive when carried out by an in-house fabrication facility. We believe one of the most significant risks currently faced by the Company is its reliance upon outsourced fabrication, and the delays and costs associated with this model. The standardized and broadly repurposed components which comprise the Company's product set do not require an expensive fabrication facility. In fact, the line required can be narrow, limited and highly efficient, thus not requiring significant investment or human resources. The Company intends to continue to outsource installation and deployment of its products, and as further improvements and standards are attained, it is management's belief the Company can continue to reduce (a) the amount of installation resources required in the field and (b) the Company's need to supervise those resources. The Company intends to rely on outsourced fabrication resources when growth or high order volume makes it necessary.

Management believes that the continuation of the Company's strategy to create highly engineered, highly scalable products which are delivered as a kit of parts to the customer site, and which require minimal field labor activities, is further positioning the Company as a provider of products which are complex but standardized and easily deployable and which reduces the exposure of the Company to the risks and inherent margin erosion that are incumbent in field deployments. The Company intends to continue to work with its existing fabrication partners and also qualify new resources so that spikes in product demand can be buffered through the use of outsourced resources if and while the Company's in-sourced fabrication facility is scaled to achieve any new levels of production. We believe the growth which the Company anticipates in the future is attainable through this highly scalable model. The products are

standardized, scalable and highly repeatable. The documentation and deployment processes that the Company is creating are highly detailed and explanatory, thus enabling a growing pool of qualified sub-contracted resources to fabricate and deploy the products without being dilutive to quality. The Company places high emphasis on qualifying and vetting sub-contracted resources because of the significant portion of the Company's shareholder value attributable to brand value.

The Company continues to bring engineering and design improvements to its products that are designed to increase the level of standardization and reduce the field labor and effort required for product deployment. Wherever possible, the components of the Solar Tree® structures are factory integrated and assembled such that complete assemblies are delivered to the sites with a regularly decreasing level of field installation activity required. This allows the Company to reduce risks associated with field work such as weather, labor deficiencies, and accidents. Our strategy also enables us to control future labor costs through mass production in a factory environment and the avoidance of prevailing wage, union, or other labor related conditions that are outside of the Company's control on deployment sites. This improvement in products, standardization, and modularization has enabled the Company to significantly reduce field deployment timeframes.

Envision's proprietary technology is described and covered through various patented and patent-pending intellectual properties. Management believes innovation and the ability to create multiple layers of value beyond competing with utility-produced electricity are key differentiators for the Company.

Services

The Company manages and controls the entire turn-key deployment of its products and supervises any field activities performed by qualified subcontracted vendors. Design, engineering, entitlement, and program management are all conducted mostly in the office while installation management is performed in the field to ensure that the highest standards and efficiencies are being met throughout the deployment. Nevertheless, as the products become more standardized and systematized and as they require less field activities to perform the deployments, so too does the level of Company supervision decrease, and the existing construction management skill sets resident at the Company can be leveraged over an increasing volume of deployments.

Intellectual Property

Envision owns the registered trademarks Solar Grove® and Solar Tree® structures.

The Company has been issued two patents: one for our Solar Tree ® structure (patent No. 7,705,277) and one recently issued for EnvisionTrak™ (a dual-synchronous tracking system for its Solar Tree® structures) (patent No. 8,648,551). Further, the Company has a patent pending for its EVARC™ product.

Key Initiatives

Solar Tree® Structure Product/Technology Development - the Company is continuing to improve the designs and efficiencies of its products. Significant emphasis is placed on innovation which we believe enables higher quality with increased deployment efficiency and reduced deployment risk. Fabrication and installation methodologies which replace labor with mechanized processes are favored. The Company's design, fabrication, and procurement processes are under constant improvement to increase efficiency and control costs. Solar Tree® structures are single column shading structures which support an overhead solar array which can be oriented for the best aesthetic effect while maximizing solar efficiency. They can be deployed alone or as a group or Solar Grove™.

EnvisionTrak™ Tracking Solar Tree® Structure® - a dual synchronous tracking mechanism which causes the Solar Tree® array to track the sun throughout the day, potentially increasing output by approximately 18%-25%.

SunCharge™ Solar Charging Stations - the integration of "best of breed" electric vehicle charging stations into the columns of the Solar Tree® structures. A major focus of the Company is on the future infrastructure of electric vehicles (EVs) and plug-in hybrid electric vehicles (PHEVs), and the leveraging of renewables and architecturally accretive infrastructure to support them.

ARC™ Technology is the integration of storage into all existing Envision Solar products. Battery storage removes the intermittency of electrical delivery often cited as a reason for not taking advantage of Renewable Energy. We believe Envision Solar is positioning itself to be a leader in the convergence of Renewable Energy generation and storage. We believe our EV ARC™ product is an elegant embodiment of this convergence. The Company plans to continue to commit engineering resources to this space with the intention of making all products storage capable within the next 12 months and starting with the Solar Tree® array, which already has a large hollow space in its existing column which we believe could be ideally suited for the elegant placement of battery storage technologies. The battery storage market is nascent, and according to industry analysts, poised for growth in the coming months and years. Management intends that the Company be a leader in the integration of Renewable Energy Products with battery storage solutions.

The Market

Distributed generation photovoltaic solar projects have historically been rooftop or adjacent property installations. Rooftops have a number of inherent problems that are avoided by utilizing parking lots and the top levels of parking structures for solar installations. Rooftops are populated with mechanical equipment, vents, skylights, elevator overruns and most importantly, roofing materials and systems including waterproof membranes that require maintenance, are warranted, and must be replaced often – more often than solar PV products. Rooftops are also limited in the area which is required for large scale energy production by PV systems. The low returns generated by many roof top and adjacent property solar deployments are often not sufficient inducement to a real estate owner, developer or tenant to expose themselves to the encumbrance and risks associated with those sorts of deployments, which in part explains the relatively low adoption of this otherwise beneficial technology.

There are over 800 million parking spaces in the United States. We believe parking lots, and the top levels of parking structures, are preferable locations, in many cases, to building rooftops for numerous reasons, which accounts for the rapid growth of the solar parking array market. They are large, unobstructed, sun-drenched areas that are easily accessible during project construction. They have no waterproofing issues and benefit significantly from shade for cars and drivers. In addition, the Company emphasizes “Solar You Can See!” because rooftop solar can’t be seen in most cases. Solar parking arrays, on the other hand, are experienced and enjoyed by employees and visitors. With the installation of a solar parking array, a previously barren and unpleasant parking lot could become a cool, shady, people friendly park where everyone can directly experience clean solar energy generation, shade, and soft safe lighting at night. We believe property owners will enjoy the benefits of the positive demonstration such a visible display of the sustainable design of their properties are and turn a cost centers into revenue centers. As the adoption of Electric Vehicles increase, we believe parking lots will be an ideal location for EV charging infrastructure and Envision’s products with SunCharge™ will offer a very attractive option to any entity considering the deployment of such solutions.

Market Verticals

Envision Solar has created a suite of products which management believes are unique, compelling, and ideally suited to address the following market verticals:

1. Outdoor Advertising,
2. Electric Vehicle Charging, and
3. Shade and Energy Production.

Management believes that each of these market verticals has:

- a) Annual spending in the billions,
- b) A global marketplace,
- c) Significant growth, and
- d) A compelling need for the products Envision produces.

1. Outdoor Advertising

As the value of traditional advertising media such as television, radio, and print diminishes, advertisers in the United States and abroad are looking for new outlets to capture the attention of consumers. Management believes there will be significant growth in spending on outdoor advertising platforms such as billboards. We believe this is particularly true relative to digital content. The DOOH (digital out of home) industry is enjoying a period of rapid growth and is set to continue to do so for the foreseeable future. Management has seen statistics suggesting DOOH and other outdoor advertising spending will exceed \$7B in the United States and \$25B globally in 2014, with massive potential markets such as China just beginning to enter the marketplace.

While we believe there is a great deal of pent up appetite for billboard spending in the United States, there are also significant barriers to the widespread deployment of the infrastructure:

- a) Entitlement – billboards are increasingly difficult to take through the permitting and zoning process. Some jurisdictions have outlawed them entirely.
- b) Public perception – the value of billboard advertising becomes questionable when the constituency views the medium as anti-social, as is often the case with traditional billboards.
- c) Energy Costs – lit and digital billboards are major energy consumers.
- d) Content updates – billboards can be slow and costly to update.

We believe Envision Solar has products that solve each of the above impediments to billboard and DOOH infrastructure deployments.

Because the Envision Solar products are renewably energized, they are shrouded in what is often referred to as the “Green Halo.” We believe that the green/sustainable aspect of our products makes them more likely to win approval through the entitlement process, while also making them more popular with an increasingly environmentally-conscious public. The dual effect, we believe, is that our products may be deployable in locations where traditional billboards may be denied. We believe these products will be more popular with an advertisers’ intended audience and, as a result, advertisers may be willing to pay for them either as a capital purchase or through any existing payment schedule they have with vendors such as Lemar, Clear Channel or JC Decaux. Envision plans to sell product (and perhaps in the future rent or lease) either directly to the end user or to one of the brokerages. We do not currently intend to sell space to content providers as there are other well established companies doing that to which we can sell.

Because our products produce more energy than they consume through the displaying of advertising content, they do not have ongoing operating expenses associated with energy costs. In fact, they can also support other local energy requirements such as lighting or, even more politically important, EV charging infrastructure.

Each of our products can be equipped with a WAN (Wide Area Network) connection that can be used to monitor the condition and performance of the unit. This WAN connection can be used equally to deliver content updates to our product’s advertising screens and to network the products so that they can be intelligently linked to one another as well as to local consumers through NFC (Near Field Communications).

2. Electric Vehicle Charging

While the growth rates in electric vehicle sales and, as a result, the requirements for supporting infrastructure are impressive, to date, the deployment of electric vehicle service equipment (“EVSE”) has not met the goals set by the Department of Energy (“DoE”) or any of the larger companies currently engaged in the space. The reasons for the delays are manifold but the main impediments include the following:

- a) Site Acquisition – identifying and leasing/controlling locations,
- b) Entitlement – permitting and zoning requirements,
- c) Civil Works – foundations and trenching,
- d) Inability to move the EVSE once deployed,
- e) Energy – sources and cost of energy,
- f) Telemetry – communications with the EV chargers.

We believe the Envision Solar EV ARC™ is the world's first and only transportable, solar powered EVSE. It arrives on site ready to operate. It resides inside a single parking space atop a ballasted pad, which negates the requirement for a foundation and makes it capable of withstanding 120 mph winds. Because it produces and stores all its own energy, it does not need a grid connection and therefore needs no trenching, switch gear, or transformer upgrades. Management believes the lack of a foundation or trench means that in most jurisdictions the EV ARC™ will not need a building permit. It is immune to grid interruptions such as black outs or brown outs. As such, it will allow for vehicle charging even in times of emergency. It can be moved at any time because it is not connected to the ground or grid, and we believe, creates an attractive and highly visible branding asset for the host. There are no utility bills to pay and, as the number of EVs increase on the host campuses; more EV ARC™ units can be added in minutes with a continued lack of disruption.

We believe these factors make the EV ARC™ a very compelling value proposition to anyone who intends to install such devices. A corporate customer can deploy EV charging quickly, efficiently, and without digging up its parking lots. The positive carbon foot print impact is greater because the EV ARC™ uses sunlight to charge the employees' EVs and, we believe, the marketing and branding impact is far greater because the enterprise has a highly visible demonstration of its commitment to the environment.

We believe Envision Solar's larger Solar Tree® structures also make perfect EVSE locations. Considering the list of impediments to EV infrastructure deployments, we believe that the Solar Tree® structure with column integrated CleanCharge™ EV chargers offers significant advantages over a typical grid tied EV charger. We believe that they offer the most attractive and practical mounting assets for fixed EV charging stations. The single column design is ideal for centrally locating multiple chargers and making them available to the maximum number of spaces. Entitlement can go more smoothly because the Solar Tree® structures contribute more benefits to the local environment than simple EV chargers. Those additional benefits include shade, reduction in heat islanding, reduction in light pollution, architectural accretion, reduction in grid stress, and even disaster preparedness when equipped with ARC™ technology. We believe that commercial real estate owners and corporate campuses will recognize the multiple layers of increased value delivered by Solar Tree® structures and CleanCharge™ deployed with little disruption to their facilities.

Solar Tree® structures with ARC™ technology energy storage generate and store enough energy to fully charge 6 to 8 EVs each day. They can be deployed in any location that is not shaded and does not require any utility grid connection. We believe that this vital factor makes them the compelling choice for remote locations where there is inadequate utility grid connection (e.g. remote rest areas) or where the requirement is for charging of mission critical vehicles (e.g. first responders, hospitals). It is our further contention that any campus environment with an EV charging need and a wish for a high degree of reliability in its electrical supply can benefit from our Solar Tree® structures with ARC™ on-board energy storage because, we believe, in times of grid instability (e.g. natural disaster, terrorism, capacity constraints), the Envision Solar products could provide the most reliable source of energy at the location.

Management believes that so called "range anxiety" is one of the top two reasons that customers are not buying EVs. We believe that our products can contribute in a significant and material manner to reducing range anxiety. As a result, we believe that any company or governmental entity that views the roll out of EV charging infrastructure as important to its business could reasonably be expected to become our customer.

3. Shade and Energy Production

Envision Solar was initially conceived as an entity structured to provide architectural and design services to customers looking for shaded parking solutions. The Company invented the Solar Tree® product line that we believe still provides the best option for solar and shade generation in parking lots. Now, with the introduction of the newest Envision product, the Solar Tree® HVLC (high value low cost) array, we believe that we can be competitive in many purely energy focused projects as well.

We believe there are at least 800 million parking spaces in the United States today. Each of our Solar Tree® products covers six to eight parking spaces. The top deck of a typical parking structure accommodates 20 to 30 Solar Tree® structures. Anyone who has looked out of the window of an airplane knows the enormity of the opportunity associated with creating shade and renewable energy in parking lots. While this is the most cost sensitive and competitive market we are approaching, the size of the market, and significant improvements in our ability to address that market, lead the

management to believe that we can win a meaningful portion of this market.

We believe, globally, solar deployments are growing significantly. While much of the growth has been focused on low-cost solutions, we believe that there will be a shift towards quality over cost as the market matures and the reduced costs of commoditized components allow for higher quality deployments while still approaching or even surpassing grid parity. Our deployment speed is also important to our marketing efforts. In most cases, we deploy our Solar Tree® products in active parking lots of active businesses. Whether we are deploying for shade or for marketing purposes, our prospective customers often consider business disruption in their analysis and buying decisions. We believe that we can perform the fastest deployment in the industry, making deployment of Envision products less negatively impactful than the deployment of our competitor's products. The potential loss of revenue or opportunity caused by a torn-up parking lot can, over time, be quite substantial. We believe our deployment speed will increasingly contribute to Envision's competitive edge.

Customer Concentration

During 2013, the Company had three customers that each exceeded 10% of our revenue. Although we will continue to market and sell to these same entities, the revenues were for independent product sales or project based sales which conclude with installations, there is no continued effect or relationship to any future revenues from these sources or others.

Competition

The solar energy industry is intensely competitive. We are subject to competition from a number of other companies manufacturing, selling, and installing solar power products in the commercial market, many of which have longer operating histories and greater financial and other resources than the Company. Our competitors include but are not limited to Baja Carports, Solaire, ViSole Energy, and Wattlots. These companies, among others, compete with us in the business of designing, assembling, selling, and installing solar power production facilities for parking lots and parking structures. While we believe that our proprietary designs and our deployment strategies differentiate us from our competitors in the market, there is no assurance that our business, operating results, and financial condition will not be materially adversely affected by our competitors.

Government Regulation

Businesses in general and solar energy companies in particular are subject to extensive regulation at the federal, state, and local level. We are subject to extensive government regulation of employment, health, safety, working conditions, labor relations, and the environment in the course of the conduct of our business. In order for our customers to enable the installation of our equipment and to utilize our products, they generally are required to obtain permits from local and other governmental agencies. In order to access the utility grid for the solar power produced by our products, they must comply with the applicable rules and regulations of the relevant state public utility agencies. In order for our customers to take advantage of available tax and other governmental incentives associated with the installation of solar power production facilities, and the production and use or sale of solar power, they must comply with the applicable regulatory terms and conditions. Government regulation may have a material adverse impact on our business, operating results, and financial condition.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our corporate headquarters are located at 7675 Dagget Street, Suite 150, San Diego, California 92111. We lease approximately 4,200 square feet of office space pursuant to a lease that expired in December 2013 and is now a month to month lease arrangement.

In connection with our entry into this lease, we issued to our landlord and real estate broker a 10% convertible note in the amount of \$100,000, which was to become due on December 18, 2010 and is subordinated in right of payment to the prior payment in full of all of our existing and future senior indebtedness. Through a series of annual amendments at the end of each fiscal year and a current amendment at the end of 2013, the maturity date has been extended to June 30, 2014. The holders of the note may, at their option, convert all or a portion of the outstanding principal amount and unpaid accrued interest as of the date of conversion into shares of our common stock equal to one share for each \$0.33 of outstanding principal and unpaid accrued interest. In the event that we receive more than \$1,000,000 in a financing or a series of financings (whether related or unrelated) prior to the maturity date of the note, 25% of the proceeds from any such financing in excess of \$1,000,000 shall be used to pay down the note. Any funds provided to us by Gemini Master Fund, Ltd. ("Gemini") or any person or entity that co-invests with Gemini will not be credited toward the \$1,000,000 threshold. Through December 31, 2013, the lender agreed to waive this requirement related to financing proceeds.

ITEM 3. LEGAL PROCEEDINGS

The Company may be involved in legal actions and claims arising in the ordinary course of business from time to time. As of December 31, 2013, the Company is not involved in any open litigation matters.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable

Part II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

On May 3, 2010, we received our listing for quotation on OTC-QB market under the symbol "EVSI". Prior to our reverse merger, there was no public market for our common stock.

The range of high and low last sale closing price quotations for each fiscal quarter during the most recent two years is as follows:

	<u>High</u>	<u>Low</u>
<u>Year Ended December 31, 2012</u>		
First Quarter ended March 31, 2012	\$0.29	\$0.19
Second Quarter ended June 30, 2012	\$0.38	\$0.18
Third Quarter ended September 30, 2012	\$0.20	\$0.13
Fourth Quarter ended December 31, 2012	\$0.18	\$0.12
<u>Year Ended December 31, 2013</u>		
First Quarter ended March 31, 2013	\$0.29	\$0.16
Second Quarter ended June 30, 2013	\$0.25	\$0.16
Third Quarter ended September 30, 2013	\$0.22	\$0.14
Fourth Quarter ended December 31, 2013	\$0.18	\$0.13

The above quotations reflect inter-dealer prices, without retail markup, mark-down, or commission and may not necessarily represent actual transactions. The closing price of our common stock on March 21, 2014 was \$0.15 per share.

On March 21, 2014, there were approximately 425 holders of record of our common stock.

We have not declared or paid any cash dividends on our common stock and do not anticipate declaring or paying any cash dividends in the foreseeable future. We can give no assurances that we will ever have excess funds available to pay dividends.

Recent Sales of Unregistered Securities

During the year ended December 31, 2013 pursuant to private placements, the Company issued 12,901,333 shares of common stock for cash at a purchase price of \$0.15 per share or \$1,935,200 and the Company incurred \$154,816 of capital raising fees that were paid in cash and charged to additional paid-in capital.

During the period from January 1, 2014 to the date of this report, pursuant to a private placement, the Company issued 6,050,000 shares of common stock for cash at a purchase price of \$0.15 per share or a total of \$907,500 and incurred \$24,000 of capital raising fees that will be paid in cash and charged to additional paid in capital. The Company also issued 6,050,000 warrants pursuant to the offering price. The warrants are exercisable at an exercise price of \$0.15 for a period of 36 months from the date of issuance. The Company is further obligated to issue 100,000 warrants, each with a 5 year term and \$0.25 exercise price, to the placement agents.

Stock Issued for Services

In March 2013, the Company issued 250,000 shares of common stock at a value of \$0.15 per share (based on contemporaneous cash sales prices) or \$37,500, for professional services to be rendered.

In September 2013, the Company issued 304,000 shares of common stock at a value of \$0.18 per share (based on market price at the time of the transaction) or \$54,720, for professional services to be rendered.

On January 23, 2014, Mr. Paul H. Feller accepted an appointment as a new Director of the Company effective January 23, 2014. In consideration for Mr. Feller's acceptance to serve as a Director of the Company, the Company granted 1,000,000 restricted shares of its common stock to him, subject to the terms and conditions set forth in the Restricted Stock Grant Agreement, dated January 23, 2014, including but not limited to the following vesting schedule: 166,672 shares on January 24, 2014 and then 69,444 shares on the last day of each calendar quarter thereafter commencing on March 31, 2014. The total value of this stock grant is \$0.17 per share (based on market price at the time of the transaction) or \$170,000.

Stock Issued in Settlement of Note Payable

In October 2013, the Company issued 150,000 shares of common stock at a value of \$0.19 per share (based on market price at time of transaction) or \$28,500 as a partial payment of outstanding debt.

Gemini Convertible Debt Extension and Simultaneous Conversion of Principal Debt Balance

As of February 28, 2014 the Company entered into a fourth extension and amendment agreement with a simultaneous principal conversion agreement related to the convertible notes payable to Gemini Master Fund ("Gemini"). With this agreement, all outstanding notes have been merged into one note, the term of the note was extended to June 30, 2015 and the beneficial holder ceiling was increased to 9.9%. No other terms of the notes were modified. These changes were accounted for as a debt modification but not as a debt extinguishment because the embedded conversion feature is bifurcated and treated as a derivative and no other debt extinguishment criteria were met. As a result of this transaction, the Company will record \$618,536 of embedded conversion option based effective interest based on the increase in the fair value of the embedded conversion option due to the modification which will be recorded as debt discount and amortized over the remaining term of the loan. The Company also issued 1,500,000 common stock purchase warrants valued at \$193,625 using the Black-Scholes valuation methodology, each with a three year term and \$0.20 strike price, to the holder. The Company agreed to pay a \$6,500 fee to cover legal and document fees which will be capitalized as an asset and will be amortized over the remaining term of the note. Simultaneously, Gemini will convert \$550,000 of principal convertible debt and additional 2014 interest on such principal debt into 3,727,778 shares of common stock of the Company at the contracted conversion price of \$0.15 per share. As an inducement to Gemini to convert the principal debt amount, the Company agreed to issue 3,727,778 common stock purchase warrants, each with a strike price of \$0.20 and a three year term. These warrants will be valued at \$482,300 using the Black-Scholes valuation methodology and will be expensed at the date of the transaction. Further, the Company issued 973,278 shares of common stock in settlement of the 2013 accrued interest on the Gemini notes. The Company will record a \$19,462 loss on conversion related to this piece of the transaction.

Equity Compensation Plans

2008 Stock Option Plan

On February 12, 2010, in connection with our reverse merger with Envision CA, we adopted the 2008 Stock Option Plan of Envision CA (the "2008 Plan") pursuant to which 200,000 shares of Envision CA common stock were reserved for issuance as awards to employees, directors, consultants and other service providers. The purpose of the 2008 Plan is to provide an incentive to attract and retain directors, officers, consultants, advisors and employees whose services are considered valuable, to encourage a sense of proprietorship and to stimulate an active interest of such persons in our development and financial success. Under the 2008 Plan, we are authorized to issue incentive stock options intended to qualify under Section 422 of the Code and non-qualified stock options. The incentive stock options may only be granted to employees. Nonstatutory stock options may be granted to employees, directors and consultants. The 2008 Plan will be administered by our Board of Directors until such time as such authority has been delegated to a committee of the Board of Directors. On a post-Merger basis, 5,867,006 stock options have been granted to date and remain outstanding under the 2008 Plan.

2011 Stock Incentive Plan

On August 10, 2011, in order to provide an incentive to attract and retain directors, officers, consultants, advisors and employees whose services are considered valuable, to encourage a sense of proprietorship and to stimulate an active interest of such persons in our development and financial success, the Company, through its Board of Directors, adopted a new equity incentive plan (the "2011 Plan"), pursuant to which 30,000,000 shares (plus annual increases as defined in the plan) of our common stock are reserved for issuance as awards to employees, directors, consultants and other service providers. Under the 2011 Plan, we are authorized to issue incentive stock options intended to qualify under Section 422 of the Code and non-qualified stock options. The incentive stock options may only be granted to employees. Nonstatutory stock options may be granted to employees, directors and consultants. The 2011 Plan is administered by our Board of Directors until such time as such authority has been delegated to a committee of the Board of Directors. The 2011 Plan was ratified by our shareholders in 2012. To date, 18,182,856 stock options have been granted and remain outstanding under the 2011 Plan.

Incentive Plan Awards

From January 1, 2013 through December 31, 2013, the Company issued a total of 1,000,000 stock options under the 2011 Plan, which were issued to three of its Board members and four additional non executive employees.

The following table sets forth certain information regarding our 2008 Plan and 2011 Plan as of December 31, 2013:

Number of securities to be issued upon exercise of outstanding	Weighted-average exercise price of outstanding stock options	Number of securities remaining available for future issuance under
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stock options

equity compensation plans

24,049,862

\$0.30

12,658,838

Warrants

As a part of the Company's private placement in 2013, the Company issued 6,450,667 common stock purchase warrants to investors as a part of the offering price. The warrants have an exercise price of \$0.20 per share and expire one year from the date of issuance. Additionally, the Company issued 645,067 common stock purchase warrants, valued at \$130,402 and exercisable for a period of five years from the date of issuance at an exercise price of \$0.25 per share, to the placement agents.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This report contains forward-looking statements that are based on current expectations, estimates, forecasts, and projections about us, the industry in which we operate and other matters, as well as management's beliefs and assumptions and other statements regarding matters that are not historical facts. These statements include, in particular, statements about our plans, strategies and prospects. For example, when we use words such as "projects," "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," "should," "would," "could," "will," "opportunity," "potential" or "may," and variations of such words or other words that convey uncertainty of future events or outcomes, we are making forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 (Securities Act) and Section 21E of the Securities Exchange Act of 1934, as amended (Exchange Act).

These forward-looking statements are subject to numerous assumptions, risks and uncertainties that may cause the Company's actual results to be materially different from any future results expressed or implied by the Company in those statements. The most important factors that could prevent the Company from achieving its stated goals include, but are not limited to, the following:

- (a) volatility or decline of the Company's stock price;
- (b) potential fluctuation in quarterly results;
- (c) failure of the Company to earn revenues or profits;
- (d) inadequate capital to continue or expand its business, and inability to raise additional capital or financing to implement its business plans;
- (e) unavailability of capital or financing to prospective customers of the Company to enable them to purchase products and services from the Company;
- (f) failure to commercialize the Company's technology or to make sales;
- (g) reductions in demand for the Company's products and services, whether because of competition, general industry conditions, loss of tax incentives for solar power, technological obsolescence or other reasons;
- (h) rapid and significant changes in markets;

- (i) inability of the Company to pay its liabilities;
- (j) litigation with or legal claims and allegations by outside parties;
- (k) insufficient revenues to cover operating costs, resulting in persistent losses; and
- (l) potential dilution of the ownership of existing shareholders in the Company due to the issuance of new securities by the Company in the future.

There is no assurance that the Company will be profitable. The Company may not be able to successfully develop, manage, or market its products and services. The Company may not be able to attract or retain qualified executives and other personnel. Intense competition may suppress the prices that the Company can charge for its products and services, hindering profitability or causing losses. The Company may not be able to obtain customers for its products or services. Government regulation may hinder the Company's business. Additional dilution in outstanding stock ownership may be incurred due to the issuance of more shares, warrants and stock options, or the exercise of outstanding warrants and stock options. The Company is exposed to other risks inherent in its business.

Because the statements are subject to risks and uncertainties, actual results may differ materially from those expressed or implied by the forward-looking statements. The Company cautions you not to place undue reliance on the statements, which speak only as of the date of this Form 10-K. The cautionary statements contained or referred to in this section should be considered in connection with any subsequent written or oral forward-looking statements that the Company or persons acting on its behalf may issue. The Company does not undertake any obligation to review or confirm analysts' expectations or estimates or to release publicly any revisions to any forward-looking statements to reflect events or circumstances after the date of this Form 10-K, or to reflect the occurrence of unanticipated events.

OVERVIEW:

Company Formation

Prior to February 11, 2010, we were a "shell company", as defined by the Securities and Exchange Commission, without material assets or activities. On February 11, 2010, we completed a merger pursuant to which a wholly owned subsidiary of ours merged with and into Envision Solar International, Inc., a California corporation ("Envision CA"), with Envision being the surviving corporation and becoming our wholly owned subsidiary. On March 11, 2010, Envision CA was merged into our publicly-held company and the name of the publicly-held company was changed to Envision Solar International, Inc. In connection with this merger, we discontinued our former business and succeeded to the business of Envision as our sole line of business. The merger is accounted for as a recapitalization, with Envision deemed to be the accounting acquirer and Casita Enterprises, Inc. ("Casita") the acquired company. Accordingly, Envision's historical consolidated financial statements for periods prior to the merger have become those of the registrant (Casita) retroactively restated for, and giving effect to, the number of shares received in the merger. The accumulated earnings of Envision were also carried forward after the acquisition.

Business Overview

Envision Solar International is a developer of solar products and proprietary technology solutions. The Company focuses on creating high quality products which transform both surface and top deck parking lots of commercial, institutional, governmental and other customers into shaded renewable generation plants. We believe the Company's chief differentiator is its ability to design and engineer architecturally accretive solar shaded parking and electric vehicle charging solutions as products which are a complex integration of simple, commonly available engineered components. The resulting products are built to have the longest life expectancy in the industry while also delivering a highly appealing architectural enhancement to our customer's locations. We believe Envision's products deliver multiple layers of value such as media and advertising platforms, architectural enhancement of the parking lot, reduction of heat islanding through shading, improved parking through shading, high visibility "green halo" branding, reduction of net operating costs through reduced utility bills and the creation of an iconic luxury landmark where simple parking existed previously.

The Company's premier product is the Solar Tree® array for which the canopy footprint measures an approximate 35 ft by 35 ft and covers 6-8 parking stalls. We have also developed various models of this product to help meet what we believe to be different market demands including the HVBA (high value branding asset), SMA (sustainable media asset), CIP (customer interface platform), HVLC (high value, low cost) and the smaller Socket array. These products can also be engineered to accommodate different sizing while still using our basic backbone design. The Company has focused significant efforts over the past few years attempting build out and also standardize our main product offerings. We believe these efforts will assist us in establishing economies of scale in the purchasing of the components that makeup the product, reducing continued design costs, and developing efficiencies and risk reduction strategies in the deployment of the products. Although these efforts have added to expenses in both the direct costs of deployments as well as additional operating costs in the current periods, we believe the Company will be able to capitalize on these improvements and see cost reductions in the future leading to increased gross profits. These improvements include items such as a factory built steel columns of the array, the development of pre-engineered purlin sections that can be assembled and installed in the field as four completed sections, pre installation and wiring of various electrical components of the system onto the structure in the factory, as well as prefabricated pads for inverters and electrical equipment. Not only will this reduce deployment time and field activities and thus reduce costs, but we believe the improvements will also help minimize disruption at customer sites which will help the Company in its sales efforts.

Further, during 2012 and 2013, the Company developed a product called the EVARC™ which was launched in the third quarter of 2013. This is a standalone, islanded version of a solar array with integrated electric vehicle charging infrastructure and battery storage. There is no requirement to connect to the electrical grid and thus deployments will be as direct as delivering the finished good product to the customer site and turning it on. As these units are free standing and not connected into the electrical grid or other fixed infrastructure, these units can be redeployed to other locations offering significant flexibility and value to an end customer. Based on initial and continuing market feedback, management believes this will have the potential to significantly increase future revenues of the Company as well as generating a broader recognition of the Company in the market.

As it relates to directed selling efforts, the Company has focused a significant amount of such efforts trying to open sales channels with significantly large customers that have the ability to execute sales orders for multiple products or properties within one sales effort. We have found that this has led to increased sales cycles as compared to what we originally expected contributing to decreased revenues in fiscal 2013. The Company is however, starting to see positive progressive results related to these efforts. We have contracts with some well known corporate entities and continued discussions with these customers suggest that, when initial deployments go well, these customers plan on expanding their purchases to multiple campuses. We believe our relationship with General Motors and its Cadillac division will produce further orders in 2014 as they introduce their brand of electric vehicle to the market. We are in current discussions with various government agencies concerning the viability of our products meeting some of their very challenging demands for which they have yet to find a viable solution. Further, the market feedback for our new EVARC™ product suggests the potential for significant growth through the sales of this product.

Critical Accounting Policies

Please refer to Note 1 in the consolidated financial statements for further information on the Company's critical accounting policies which are summarized as follows:

Accounts Receivable. Accounts receivable are customer obligations due under normal trade terms. Management reviews accounts receivable on a periodic basis to determine if any receivables will potentially be uncollectible. Management's evaluation includes several factors including the aging of the accounts receivable balances, a review of significant past due accounts, our historical write-off experience, net of recoveries and economic conditions. The Company includes any accounts receivable balances that are determined to be uncollectible in its overall allowance for doubtful accounts. Further, the Company may record a general reserve in its allowance for doubtful accounts to account for future changes that may negatively impact our overall collections. After all attempts to collect a receivable have failed, the receivable is written off against the allowance.

Impairment of Long-lived Assets. The Company accounts for long-lived assets in accordance with the provisions of ASC 360-10-35-15 "Impairment or Disposal of Long-Lived Assets." This guidance requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that

the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the 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.

Accounting for Derivatives. The Company evaluates its convertible instruments, options, warrants, or other contracts to determine if those contracts or embedded components of those contracts qualify as derivatives to be separately accounted for under ASC Topic 815, "Derivatives and Hedging." The result of this accounting treatment is that the fair value of the derivative is marked-to-market on each balance sheet date and recorded as a liability. In the event that the fair value is recorded as a liability, the change in fair value is recorded in the statement of operations as other income (expense). Upon conversion or exercise of a derivative instrument, the instrument is marked to fair value at the conversion date and then that fair value is reclassified to equity. Equity instruments that are initially classified as equity that become subject to reclassification under ASC Topic 815 are reclassified to liabilities at the fair value of the instrument on the reclassification date.

Use of Estimates. The preparation of consolidated financial statements in accordance with generally accepted accounting principles in the United States of America. (“U.S. GAAP”) requires us 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The consolidated financial statements include estimates based on currently available information and our judgment as to the outcome of future conditions and circumstances. Significant estimates in the accompanying consolidated financial statements include the allowance for doubtful accounts receivable, valuation of inventory, depreciable lives of property and equipment, estimates of costs to complete and earnings on uncompleted contracts, estimates of loss contingencies, valuation of accrued rent, valuation of derivatives, valuation of beneficial conversion features in convertible debt, valuation of share-based payments, valuation of accrued loss contingencies, and the valuation allowance on deferred tax assets.

Revenue and Cost Recognition. Revenues are primarily derived from the direct sales of products in addition to construction projects for the construction and installation of integrated solutions and proprietary products. Revenues may also consist of design fees for the design of solar systems and arrays, and revenues from sales of professional services.

Revenues from design services and professional services are recognized as earned.

Revenues from inventoried product sales are recognized upon the final delivery of such product to the customer. Any deposits received from a customer prior to such delivery are accounted for as deferred revenue on the balance sheet.

Revenues and related costs on construction projects are recognized using the “percentage of completion method” of accounting in accordance with ASC 605-35, “Construction-Type and Production-Type Contracts”. Under this method, contract revenues are recognized over the performance period of the contract in direct proportion to the costs incurred as a percentage of total estimated costs for the entirety of the contract. Costs include direct material, direct labor, subcontract labor, allocable depreciation, and other allocable indirect costs and are charged to the periods as incurred. All unallocable indirect costs and corporate general and administrative costs are also charged to the periods as incurred. Any recognized revenues that have not been billed to a customer are recorded as an asset in “costs and estimated earnings in excess of billings on uncompleted contracts.” Any billings of customers in excess of recognized revenues are recorded as a liability in “Billings in excess of costs and estimated earnings on uncompleted contracts.” However, in the event a loss on a contract is foreseen, the Company will recognize the loss when such loss is determined.

For construction contracts that do not qualify for use of the percentage of completion method, the Company accounts for such contracts using the “completed contract method” of accounting in accordance with ASC 605-35. Under this method, contract costs are accumulated as deferred assets and billings and/or cash received are recorded to a deferred revenue liability account during the periods of construction, but no revenues, costs or profits are recognized in

operations until the period upon completion of the contract. Costs include direct material, direct labor, subcontract labor, allocable depreciation, and other allocable indirect costs. All unallocable indirect costs and corporate general and administrative costs are charged to the periods as incurred. However, in the event a loss on a contract is foreseen, the Company will recognize the loss when such loss is determined. The deferred asset (accumulated contract costs) in excess of the deferred liability (billings and/or cash received) is classified as a current asset under "Costs in excess of billings on uncompleted contracts." The deferred liability (billings and/or cash received) in excess of the deferred asset (accumulated contract costs) is classified under current liabilities as "Billings in excess of costs on uncompleted contracts."

A contract is considered complete when all costs except insignificant items have been incurred and the installation is operating according to specifications or has been accepted by the customer.

The Company has contracts in various stages of completion. Such contracts require estimates to determine the appropriate cost and revenue recognition. Costs estimates are reviewed periodically on a contract-by-contract basis throughout the life of the contract such that adjustments to the profit resulting from revisions are made cumulative to the date of the revision. Significant management judgments and estimates, including the estimated costs to complete projects, must be made and used in connection with the revenue recognized in the accounting period. Current estimates may be revised as additional information becomes available.

The Company includes shipping and handling fees billed to customers as revenues, and shipping and handling costs as cost of revenues. The Company does not provide any warranties on its products other than those passed on to its customers from its manufacturers, if any. As the Company expands its product offerings, it will offer expanded warranties on certain components. In accordance with ASC 450-20-25, the Company accrues for product warranties when the loss is probable and can be reasonably estimated. At December 31, 2013, the Company has \$13,000 of accrued warranty reserve for a specific warranty claim. No further product warranty accrual has been recorded given the lack of historical warranty experience.

Stock Based Compensation. At inception, we adopted ASC Topic 718, “Compensation – Stock Options.” ASC Topic 718 requires companies to estimate and recognize the fair value of stock-based awards to employees and directors. The value of the portion of an award that is ultimately expected to vest is recognized as an expense over the requisite service periods using the straight-line attribution method. The Company accounts for non-employee share-based awards in accordance with the measurement and recognition criteria of ASC 505-50 “Equity-Based Payments to Non-Employees”. We estimate the fair value of each stock option at the grant date by using the Black-Scholes option pricing model.

Results of Operations

Results of Operations for the Year Ended December 31, 2013 Compared to the Year Ended December 31, 2012

Revenue. For the year ended December 31, 2013, our revenue was \$281,014, compared to \$721,835 for the same period in 2012. During 2012, we finished two larger, multiple array projects that we started in 2011 as well as installing our Solar Tree ® arrays for other valuable customers. During 2013, although our revenues were lower than in 2012, we were successful in installing our first ever Cadillac branded Solar Tree® array for a dealership, and we also designed, built, and delivered the first three units of our new EVARC™ products to end customers.

Our products, which we believe to be of a significantly greater quality than our competitor’s products, can cost significantly more to acquire initially than a typical competing product, although we believe that the life cycle costs and TCO (total cost of ownership) may be lower. The benefits that come with our product, in our opinion, far outweigh the difference in installed costs offered by our lower priced competition. Although we continue to receive positive feedback on the value proposition of our product offerings, especially that of our new EV ARC product, we believe that the high initial installation costs of our standard array, combined with the overall economic conditions that companies are experiencing as they rebound from a recessionary period, have slowed businesses from completing purchases. We further believe that many companies are in a transitory period in their acceptance of various renewable energy platforms. In response to these market conditions, the Company has focused a significant portion of its selling efforts toward securing large customers that have the ability to order volumes of our products within one sales effort. These larger customers appear to support and foster directives that lead to the proliferation of renewable energy systems for their properties.

Management is responding to these market conditions by creating new products which we believe may have reduced sales cycles and/or more attractive financial models. Examples of these product developments are:

1. EV ARC™ - this product is much less expensive than our larger Solar Tree® structures and is portable. It requires less capital and real estate commitment from our potential customers, and therefore we believe is an easier purchasing decision which may require a lower level of management sign-off. EV ARC™ is also highly exportable, and as such, we believe offers significantly increased geographic growth potential.

2. Solar Tree® HVLC structure – this product leverages the high quality engineering and fabrication of our standard Solar Tree® structure but without many of the finer aesthetic attributes and details. It is designed for broad deployments where branding and media placement are not important. We believe it is well suited to enable the Company to compete in instances where low cost energy production is the foremost requirement of the purchaser such as RFPs (requests for proposals) and PPAs (power purchase agreements). Management believes that our ability to produce and install the highest quality structures in a highly efficient manner will allow us to succeed in this highly competitive area of the industry. In November 2013, the Company received its first orders for these products.

3. Solar Tree® SMP (Sustainable Media Platform) structure - management has consulted with various people we believe to be industry experts who report that the Company's Solar Tree® structures strategically located in high traffic areas are extremely valuable platforms for display advertising and other media. With that in mind the Company has partnered with Daktronics to create a Solar Tree® structure with incorporated static or digital media displays. The pay back periods on such a structure should be far shorter and the revenue generation potential far greater than typical solar deployments can offer, and as such, the product offers a much easier financial decision for a potential customer such as a shopping mall REIT.

All of the above mentioned product offerings are based upon the Company's existing products and technology, but are designed to reduce the barriers to purchasing on the part of the prospective customer. Enhanced revenue generation and lowered product cost both create opportunities for improved financial models for our prospective customers which we believe will, in turn, reduce the length of the sales cycle while increasing the numbers of prospective customers for our products.

Gross Profit. For the year ended December 31, 2013, we had a gross loss \$244,538 compared to a gross profit of \$168,607 for the same period in 2012.

In 2012, the Company designed certain additional elements to our Solar Tree® array for the General Motors Cadillac division. We believe these changes, which were made in collaboration with Cadillac personnel, would add to the marketing value proposition of our structure for this client base, and we believe, directly benefit the Company with increased sales to this channel. In so doing, we were challenged with a certain few of these elements and thus recorded an approximate \$30,000 project loss that was recorded in 2012 gross profits. Also in 2012, we contracted to sell two units of our new EVARC product and began the manufacturing process on the order. As we moved forward on the first time development of this product line, we identified certain modifications that were required for our customer and recorded a loss of approx \$20,000 for such sale which is recorded in 2012 gross profits. These losses were offset by the positive margins of all other active projects in the period.

During 2013, the Company was successful in deploying this first ever Cadillac branded Solar Tree® array. During this installation, we experienced challenges with the first time deployment of these new elements, including what management believes will be unique site conditions that increased costs of this singular deployment producing

increased overall losses on the project. Further, as discussed above, during this period in 2013, we built and delivered the first three units of our EV ARC product and experienced increases in the production costs over initial estimates. In this early stage of the production evolution for the EV ARC™ and low volumes, the Company believes the appropriate selling price point is lower than these actual initial costs of production. Management believes that certain production elements will mature allowing for gross profit on future sales later in 2014. These elements include production economies of scale, lower costs of components including the cost of battery storage which is currently a significant cost contributor, as well as design changes to allow for improved production processes. As such, the Company recorded these estimated losses on other units of the EV ARC™ that were sold in 2013 but will not be produced until 2014. Additionally, management has identified certain cost in the upcoming deployment of our first ever HVLC array that was contracted in 2013 resulting in estimated losses. These increased costs resulted in the gross loss for the period.

Operating Expenses. Total operating expenses were \$2,190,133 for the year ended December 31, 2013, compared to \$2,368,793 for the same period in 2012. A significant contributor to this decrease relates to non cash stock option expense which decreased by approximately \$330,000 to \$435,028 in 2013 from \$766,732 in 2012. The Company incurred approximately \$80,000 more in 2013, as compared to 2012, for various marketing efforts; and sales expenses, primarily labor related, increased by almost \$80,000. Consulting fees increased by an approximate net of \$70,000, but this amount included increases in public relations and investment advisory services and decreases in architectural consulting and legal fees. Further, in 2012, the Company expended over \$100,000 on certain business development costs related to General Motors that were not incurred in 2013.

Provision for Income Taxes. Our income taxes for the years ended December 31, 2013 and December 31, 2012 remained consistent and related primarily to a \$1,600 charge for the California Franchise Tax Board based on the minimum tax due to the state for each year. We did not incur any federal tax liability for the years ended December 31, 2013 and 2012 because we incurred operating losses in these periods.

Interest Expense. Interest expense was \$647,854 for the year ended December 31, 2013, compared to \$972,027 for the same period in 2012. The decrease was primarily derived from the amortization of debt discount related to the embedded conversion option derivative components of the current debt instruments which amortization amounted to \$456,073 in 2013 and \$674,254 in 2012. Although such debt discount was recorded and then fully amortized in each of these periods, such debt discount was lower in 2013 primarily due to the market value of our stock compared to the conversion option strike price at the time of recording the discount. Further, in 2012, the Company incurred approximately an additional \$83,000 of fees related to the conversion of convertible debt that was charged to interest expense.

Gain on debt Settlement. We generated income of \$114,167 for the year ended December 31, 2013, compared to \$42,731 for the year ended December 31, 2012. This is all derived from management's successful efforts in negotiating final settlements of historical obligations of the Company.

Change in Fair Value of Embedded Conversion Option Liability. The income associated with the change in fair value of our embedded conversion option liability decreased to \$174,808 for the year ended December 31, 2013, compared to \$647,977 for the period ended December 31, 2012. The amounts represent the change in fair value of the embedded conversion option attached to the Gemini Master Fund notes and are in large part due to the fluctuation of our stock price in relation to the conversion strike price of the debt.

Net Earnings (Loss). We generated net losses of \$2,793,910 for the year ended December 31, 2013, compared to \$2,481,728 for the same period in 2012. The major components that derive these losses, and the changes of such between years, are discussed in the above paragraphs.

Liquidity and Capital Resources

General. At December 31, 2013, we had cash of \$392,098. We have historically met our cash needs through proceeds from private placements of our securities, and from loans. Our cash requirements are generally for operating activities.

Our operating activities used cash of \$1,591,667 for the year ended December 31, 2013, and we used cash in operations of \$1,162,812 for the same period in 2012. This use of cash in 2013 was primarily driven by the \$2,793,910 net loss we experienced in the period which was offset by various net changes in the balance sheet items as well other non cash items in such loss. In 2013, the Company incurred \$557,967 of non cash expenses, including \$435,028 for employee or director related stock options, paid for with the Company's equity instruments. Related to the derivative components of our debt instruments, we had a noncash charge of \$456,073 of amortization of debt discount that was recorded in interest expense and \$174,808 of noncash income for the change in the fair value of our embedded conversion option liability. We also incurred \$44,359 of depreciation, recorded \$11,700 of bad debt expense, and recorded non cash income on the net settlements of debts of \$114,167. Relative to balance sheet items, in relation to the timing of the cash flows on active projects at the end of 2012, during 2013 we had a decrease in accounts receivable of \$138,357 representing cash collected that was partially used to fund the reduction of \$58,436 of accounts payable. There was a source of cash generated through the increase of accrued liabilities of \$250,883 primarily related to the interest owed on debts, increased vacation accrual, estimated project losses recorded as a liability, and timing liabilities related to the yearend payroll. Also, we had a decrease of \$80,000 in the deferred revenue liability related to deposit billings in 2012 for the EVARC product that was delivered in 2013, and a decrease of \$36,853 of inventory related to the work in progress build out of this same delivered product. Further, as a function of the timing of project billings, we had an increase in billings in excess of costs and estimated earnings on uncompleted contracts resulting from a mobilization payment for a new project.

Cash used in investing activities, all related to equipment purchases, during the year ended December 31, 2013 was \$41,948, compared to \$9,568 during the same period in 2012.

Cash received in our financing activities was \$1,768,317 for the year ended December 31, 2013, compared to cash received of \$961,000 during the same period in 2012. These cash flows are primarily attributable to the sale of common stock executed during the applicable years, less offering costs for such period. Additionally, in 2013, the Company made principal payments of \$12,067 on a debt instrument in lieu of interest.

As of December 31, 2013, current liabilities exceeded current assets by approximately \$2,600,000. Current assets decreased from \$706,418 at December 31, 2012 to \$629,284 at December 31, 2013 (primarily related to the decrease of inventory and prepaid assets) while current liabilities increased from \$2,860,197 at December 31, 2012 to \$3,233,430 at December 31, 2013 (partially related to the increase in accrued liabilities and the increase in convertible notes payable net of discount as such discount was amortized to interest expense during 2013 and no current discount is applicable). As a result, our working capital increased to a deficit of \$2,604,146 at December 31, 2013 from a deficit of \$2,153,779 at December 31, 2012.

As of December 31, 2013, the Company had \$1,689,975 in short term borrowings of which \$1,406,326 is past due and payable as of December 31, 2013. All of our borrowings incur interest expense of 10% per annum. Payments on the Company's borrowings will restrict cash used for operations during 2014. One of the short term borrowing arrangements is secured by substantially all assets of the Company and its subsidiaries.

During the period from January 1, 2014 to the date of this report, pursuant to a private placement, the Company raised \$883,500, net of placement fees, in consideration for the issuance of shares of the Company's common stock and common stock purchase warrants.

Management believes that, along with the maturation of long sales cycle opportunities and the introduction of the EVARC product line, that certain changes will allow it to execute on its strategic plan and enable it to experience profitable growth in the future. Some of these changes include: increase in external sales relationships, increase in internal sales personnel, process improvements, standardization and improved product design, cost reductions achieved with deployment and manufacturing velocities, increased public awareness of the Company and its products, and improvements in the capital markets. Management believes that these changes will help enable the Company to generate sufficient revenue and gross margins and raise additional capital to allow the Company to manage its debt burden appropriately and assist the Company towards growth in the future. There is no assurance, however, as to if or when the Company will be able to achieve those investment objectives. The Company does not have sufficient capital to meet its current cash needs which the Company estimates to be approximately \$1,500,000 for 2014, including the costs of compliance with the continuing reporting requirements of the Securities Exchange Act of 1934, as amended. The Company intends to seek additional capital and long term debt financing to attempt to overcome its working capital deficit. The Company is currently conducting a private placement of its common stock and common stock

purchase warrants to raise \$2,000,000 of capital (of which \$907,500 has been raised through the date of this report), but there is no assurance that the Company can raise sufficient additional capital or obtain sufficient financing to enable it to sustain monthly operations. In order to address its working capital deficit, the Company also intends to endeavor to increase sales of its existing products and services. There may not be sufficient funds available to the Company to enable it to remain in business and the Company's needs for additional financing are likely to persist, although the management team believes that recent operational and business development opportunities are causing this situation to improve.

Contractual Obligations

Please refer to Note 10 in the consolidated financial statements for further information on the Company's contractual obligations.

Going Concern Qualification

The Company has incurred significant losses from operations, and such losses are expected to continue. The Company's Independent Registered Public Accounting Firm has included a "Going Concern Qualification" in their report for the year ended December 31, 2013. In addition, the Company has limited working capital. The foregoing raises substantial doubt about the Company's ability to continue as a going concern. Management's plans include seeking additional capital or debt financing. There is no guarantee that additional capital or debt financing will be available when and to the extent required, or that if available, it will be on terms acceptable to the Company. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. The "Going Concern Qualification" might make it substantially more difficult to raise capital.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Envision Solar International, Inc. and Subsidiary

Consolidated Financial Statements

December 31, 2013 and 2012

Envision Solar International, Inc. and Subsidiary

Table of Contents

	Page(s)
Report of Independent Registered Public Accounting Firm	F-1
Consolidated Balance Sheets	F-2
Consolidated Statements of Operations	F-3
Consolidated Statements of Changes in Stockholders' Deficit	F-4
Consolidated Statements of Cash Flows	F-5
Notes to Consolidated Financial Statements	F-6

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of:

Envision Solar International, Inc.

We have audited the accompanying consolidated balance sheets of Envision Solar International, Inc. and its Subsidiary as of December 31, 2013 and 2012 and the related consolidated statements of operations, changes in stockholders' deficit, and cash flows for each of the two years in the period ended December 31, 2013. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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 consolidated financial position of Envision Solar International, Inc. and its Subsidiary as of December 31, 2013 and 2012 and the consolidated results of its operations and its cash flows for each of the two years in the period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company reported a net loss of \$2,793,910 and \$2,481,728 in 2013 and 2012, respectively, and used cash for operating activities of \$1,591,667 and \$1,162,812 in 2013 and 2012, respectively. At December 31, 2013, the Company had a working capital deficiency,

stockholders' deficit and accumulated deficit of \$2,604,146, \$2,505,874 and \$27,616,098 respectively. These matters raise substantial doubt about the Company's ability to continue as a going concern. Management's plans as to these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Salberg & Company P.A.

SALBERG & COMPANY, P.A.

Boca Raton, Florida

March 31, 2014

2295 NW Corporate Blvd., Suite 240 • Boca Raton, FL 33431-7328

Phone: (561) 995-8270 • Toll Free: (866) CPA-8500 • Fax: (561) 995-1920

www.salbergco.com • info@salbergco.com

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Envision Solar International, Inc. and Subsidiary**Consolidated Balance Sheets**

	December 31,	
	2013	2012
Assets		
Current Assets		
Cash	\$ 392,098	\$ 257,396
Accounts Receivable, net	179,459	329,516
Prepaid and other current assets	38,255	63,181
Inventory, net	19,472	56,325
Total Current Assets	629,284	706,418
Property and Equipment, net	88,865	91,276
Other Assets		
Debt issue costs, net	–	5,000
Deposits	9,407	9,407
Total Other Assets	9,407	14,407
Total Assets	\$ 727,556	\$ 812,101
Liabilities and Stockholders' Deficit		
Current Liabilities		
Accounts Payable	\$ 458,933	\$ 630,036
Accrued Expenses	603,300	358,450
Sales Tax Payable	36,828	38,864
Deferred Revenue	–	80,000
Billings in excess of costs and estimated earnings on uncompleted contracts	163,129	26,838
Convertible Note Payable -Related Party	110,616	122,683
Notes Payable	73,033	97,000
Convertible Notes Payable, net of discount of \$0 and \$456,073 at December 31, 2013 and 2012 respectively	1,506,326	1,050,253
Embedded Conversion Option Liability	281,265	456,073
Total Current Liabilities	3,233,430	2,860,197
Commitments and Contingencies (Note 10)		
Stockholders' Deficit		
Common Stock, \$0.001 par value, 162,500,000 million shares authorized, 71,702,942 and 58,097,609 shares issued or issuable and outstanding at December 31, 2013 and	71,703	58,098

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2012, respectively		
Additional Paid-in-Capital	25,038,521	22,715,994
Accumulated Deficit	(27,616,098)	(24,822,188)
Total Stockholders' Deficit	(2,505,874)	(2,048,096)
Total Liabilities and Stockholders' Deficit	\$727,556	\$812,101

The accompanying notes are an integral part of these Consolidated Financial Statements.

F-2

Envision Solar International, Inc. and Subsidiary**Consolidated Statements of Operations**

	For the Year Ended December 31,	
	2013	2012
Revenues	\$281,014	\$721,835
Cost of Revenues	525,552	553,228
Gross Profit (Loss)	(244,538)	168,607
Operating Expenses (including stock based compensation expense of \$557,967 for the year ended December 31, 2013 and \$832,225 for the year ended December 31, 2012)	2,190,133	2,368,793
Loss From Operations	(2,434,671)	(2,200,186)
Other Income (Expense)		
Other Income	1,240	1,525
Gain on Debt Settlement, net	114,167	42,731
Interest Expense	(647,854)	(972,027)
Change in fair value of embedded conversion option liability	174,808	647,977
Total Other Income (Expense)	(357,639)	(279,794)
Loss Before Income Tax	(2,792,310)	(2,479,980)
Income Tax Expense	1,600	1,748
Net Loss	\$(2,793,910)	\$(2,481,728)
Net Loss Per Share- Basic and Diluted	\$(0.04)	\$(0.04)
Weighted Average Shares Outstanding- Basic and Diluted	69,548,621	55,479,675

The accompanying notes are an integral part of these Consolidated Financial Statements.

Envision Solar International, Inc. and Subsidiary**Consolidated Statements of Changes in Stockholders' Deficit****For the Years Ended December 31, 2013 and 2012**

	Common Stock	Additional	Accumulated		
	Stock	Amount	Paid-in-Capital	Deficit	
				Total	
Balance December 31, 2011	49,405,732	\$49,406	\$ 19,808,851	\$(22,340,460)	\$(2,482,203)
Stock Issued for Cash	4,200,000	4,200	1,045,800	–	1,050,000
Cash Offering Costs	–	–	(84,000)	–	(84,000)
Stock Issued for Services	594,286	594	73,899	–	74,493
Stock Issued in Conversion of Convertible Note	3,647,591	3,648	1,044,188	–	1,047,836
Stock Issued in Settlement of Note Payable	250,000	250	48,250	–	48,500
Warrants Issued for Services	–	–	12,274	–	12,274
Stock Option Expense	–	–	766,732	–	766,732
Net Loss 2012	–	–	–	(2,481,728)	(2,481,728)
Balance December 31, 2012	58,097,609	\$58,098	\$ 22,715,994	\$(24,822,188)	\$(2,048,096)
Stock Issued for Cash	12,901,333	12,901	1,922,299	–	1,935,200
Cash Offering Costs	–	–	(154,816)	–	(154,816)
Stock Issued for Services	554,000	554	91,666	–	92,220
Stock Issued in Settlement of Note Payable	150,000	150	28,350	–	28,500
Stock Option Expense	–	–	435,028	–	435,028
Net Loss 2013	–	–	–	(2,793,910)	(2,793,910)
Balance December 31, 2013	71,702,942	\$71,703	\$ 25,038,521	\$(27,616,098)	\$(2,505,874)

The accompanying notes are an integral part of these Consolidated Financial Statements.

F-4

Envision Solar International, Inc. and Subsidiary**Consolidated Statements of Cash Flows**

	For the Year Ended December 31,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Loss	\$(2,793,910)	\$(2,481,728)
Adjustments to Reconcile Net loss to Net Cash Used in Operating Activities:		
Depreciation	44,359	60,428
Bad debt expense (recovery)	11,700	(14,488)
Warrants issued as debt issuance fees	–	12,274
Common Stock issued for Services	74,264	6,993
Amortization of prepaid expenses paid in common stock	48,675	46,226
Gain on debt Settlement, net	(112,667)	(8,731)
Gain on settlement of debt for common stock	(1,500)	(34,000)
Compensation expense related to grant of stock options	435,028	766,732
Change in fair value of embedded conversion option liability	(174,808)	(647,977)
Amortization of debt discount	456,073	674,254
Amortization of debt issue costs	5,000	30,480
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts Receivable	138,357	1,129,946
Prepaid Expenses and other current assets	(5,793)	1,954
Costs and estimated earnings in excess of billings on uncompleted contracts	–	42,580
Inventory	36,853	(56,325)
Deposits	–	(6,250)
Increase (decrease) in:		
Accounts Payable	(58,436)	(839,460)
Accounts Payable - related party	–	(109,145)
Accrued Expenses	250,883	253,493
Accrued Rent	–	9,417
Sales Tax Payable	(2,036)	(3,402)
Deferred Revenue	(80,000)	80,000
Billings in excess of costs and estimated earnings on uncompleted contracts	136,291	(76,083)
NET CASH USED IN OPERATING ACTIVITIES	(1,591,667)	(1,162,812)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Equipment	(41,948)	(9,568)
NET CASH USED IN INVESTING ACTIVITIES	(41,948)	(9,568)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments on convertible notes payable	(12,067)	–
Proceeds from Sale of Common Stock	1,935,200	1,050,000

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Payments of offering costs related to sale of common stock	(154,816)	(84,000)
Payments of Debt Issue Costs	–	(5,000)
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,768,317	961,000
NET INCREASE (DECREASE) IN CASH	134,702	(211,380)
CASH AT BEGINNING OF YEAR	257,396	468,776
CASH AT END OF YEAR	\$392,098	\$257,396
<u>Supplemental Disclosure of Cash Flow Information:</u>		
Cash paid for interest	\$–	\$12,268
Cash paid for income tax	\$1,600	\$1,748
<u>Supplemental Disclosure of Non-Cash Investing and Financing Activities:</u>		
Prepaid common stock issued for services	\$85,740	\$67,500
Conversion of accounts payable to convertible notes payable	\$–	\$20,000
Common stock issued in conversion of note payable and accrued interest	\$28,500	\$48,500
Common stock issued in conversion of convertible note payable	\$–	\$1,047,836
Capitalization of accrued interest to notes payable	\$–	\$2,004
Capitalization of accrued interest to convertible notes payable	\$–	\$130,383
Embedded conversion option liability recorded as debt discount	\$–	\$456,073

The accompanying notes are an integral part of these Consolidated Financial Statements.

ENVISION SOLAR INTERNATIONAL INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012

1. CORPORATE ORGANIZATION, NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CORPORATE ORGANIZATION

The Company was incorporated on June 12, 2006 as a limited liability company ("LLC"), under the name Envision Solar, LLC. In September 2007, the company was reorganized as a California C Corporation and issued one share of common stock for each outstanding member unit in the LLC. Also during 2007, the Company formed various wholly owned subsidiaries to account for its planned future operations. During 2008, only two subsidiaries were operational, with a third, Envision Africa, LLC anticipated becoming operational in the future. The other various remaining subsidiaries were dissolved with the Secretary of State of California in 2008. Later during 2010, Envision Africa LLC was also dissolved. Further, during 2011, Envision Solar Residential was dissolved. The only remaining subsidiary included in these consolidated financial statements is Envision Solar Construction Company, Inc.

On February 11, 2010, Envision Solar International, Inc., a California corporation (Envision CA) was acquired by an inactive publicly-held company in a transaction treated as a recapitalization of the Company with Envision CA being the surviving business and becoming our wholly-owned subsidiary. On March 11, 2010, Envision CA was merged into our publicly-held company and the name of the publicly-held company was changed to Envision Solar International, Inc. (along with its subsidiaries, hereinafter the "Company", "us", "we", "our" or "Envision"). The effects of the recapitalization have been retroactively applied to all periods presented in the accompanying consolidated financial statements and footnotes.

NATURE OF OPERATIONS

Envision Solar International is a developer of solar products and proprietary technology solutions. The Company focuses on creating high quality products which transform both surface and top deck parking lots of commercial, institutional, governmental and other customers into shaded renewable generation plants. The Company's chief differentiator is its ability to design and engineer architecturally accretive solar shaded parking and electric vehicle charging solutions as products which are a complex integration of simple, commonly available engineered

components. The resulting products are built to have the longest life expectancy in the industry while also delivering a highly appealing architectural enhancement to our customer's locations. Envision's products deliver multiple layers of value such as media and advertising platforms, architectural enhancement of the parking lot, reduction of heat islanding through shading, improved parking through shading, high visibility "green halo" branding, reduction of net operating costs through reduced utility bills and the creation of an iconic luxury landmark where simple parking existed previously.

PRINCIPALS OF CONSOLIDATION

The consolidated financial statements include the accounts of Envision Solar International, Inc. and its wholly-owned subsidiary, Envision Solar Construction Company, Inc. All significant inter-company balances and transactions have been eliminated in the consolidation.

USE OF 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 disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates in the accompanying consolidated financial statements include the allowance for doubtful accounts receivable, valuation of inventory, depreciable lives of property and equipment, estimates of costs to complete and earnings on uncompleted contracts, estimates of loss contingencies, valuation of accrued rent, valuation of derivatives, valuation of beneficial conversion features in convertible debt, valuation of share-based payments, and the valuation allowance on deferred tax assets.

ENVISION SOLAR INTERNATIONAL INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012

CONCENTRATIONS

Concentration of Credit Risk

The Company maintains its cash in bank and financial institution deposits that at times may exceed federally insured limits. The Company has not experienced any losses in such accounts through December 31, 2013. Bank balances in excess of FDIC insured levels amounted to \$154,178 as of December 31, 2013.

Concentration of Accounts Receivable

At December 31, 2013 and 2012, customers that each accounted for more than 10% of our accounts receivable were as follows:

	2013	2012
Customer 1	87%	–
Customer 2	12%	–
Customer 3	–	46%
Customer 4	–	31%
Customer 5	–	18%

Concentration of Revenues

For the years ended December 31, 2013 and 2012, customers that each represented more than 10% of our revenues were as follows:

	2013	2012
Customer A	56%	–
Customer B	28%	–
Customer C	14%	–
Customer D	–	26%
Customer E	–	24%
Customer F	–	22%
Customer G	–	13%

CASH AND CASH EQUIVALENTS

For the purposes of the consolidated statements of cash flows, the Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. There were no cash equivalents at December 31, 2013 or December 31, 2012.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial instruments, including cash, accounts receivable, accounts payable, accrued expenses and short term loans, are carried at historical cost basis. At December 31, 2013, the carrying amounts of these instruments approximated their fair values because of the short-term nature of these instruments. (See note 9 for further discussion of fair value measurements.)

ENVISION SOLAR INTERNATIONAL INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012

ACCOUNTS RECEIVABLE

Accounts receivable are customer obligations due under normal trade terms. Management reviews accounts receivable on a periodic basis to determine if any receivables will potentially be uncollectible. Management's evaluation includes several factors including the aging of the accounts receivable balances, a review of significant past due accounts, dialogue with the customer, the financial profile of a customer, our historical write-off experience, net of recoveries and economic conditions. The Company includes any accounts receivable balances that are determined to be uncollectible in its overall allowance for doubtful accounts. Further, the Company may record a general reserve in its allowance for doubtful accounts to account for future changes that may negatively impact our overall collections. After all attempts to collect a receivable have failed, the receivable is written off against the allowance.

INVENTORY

Inventories are stated at the lower of cost or net realizable value. Costs are determined using the first in- first out (FIFO) method. As of December 31, 2013, inventory consists entirely of raw materials.

PROPERTY, EQUIPMENT AND DEPRECIATION

Property and equipment is recorded at cost. Depreciation is computed using the straight-line method based on the estimated useful lives of the related assets of 5 to 7 years. Expenditures for maintenance and repairs along with fixed assets below our capitalization threshold are expensed as incurred.

IMPAIRMENT OF LONG-LIVED ASSETS

The Company accounts for long-lived assets in accordance with the provisions of ASC 360-10-35-15 “Impairment or Disposal of Long-Lived Assets.” This guidance requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the 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.

ACCOUNTING FOR DERIVATIVES

The Company evaluates its convertible instruments, options, warrants or other contracts to determine if those contracts or embedded components of those contracts qualify as derivatives to be separately accounted for under ASC Topic 815, “Derivatives and Hedging.” The result of this accounting treatment is that the fair value of the derivative is marked-to-market each balance sheet date and recorded as a liability. In the event that the fair value is recorded as a liability, the change in fair value is recorded in the statement of operations as other income (expense). Upon conversion or exercise of a derivative instrument, the instrument is marked to fair value at the conversion date and then that fair value is reclassified to equity. Equity instruments that are initially classified as equity that become subject to reclassification under ASC Topic 815 are reclassified to liabilities at the fair value of the instrument on the reclassification date.

ENVISION SOLAR INTERNATIONAL INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012

REVENUE AND COST RECOGNITION

Revenues are primarily derived from the direct sales of products in addition to construction projects for the construction and installation of integrated solutions and proprietary products. Revenues may also consist of design fees for the design of solar systems and arrays, and revenues from sales of professional services.

Revenues from design services and professional services are recognized as earned.

Revenues from inventoried product sales are recognized upon the final delivery of such product to the customer. Any deposits received from a customer prior to such delivery are accounted for as deferred revenue on the balance sheet.

Revenues and related costs on construction projects are recognized using the “percentage of completion method” of accounting in accordance with ASC 605-35, “Construction-Type and Production-Type Contracts.” Under this method, contract revenues are recognized over the performance period of the contract in direct proportion to the costs incurred as a percentage of total estimated costs for the entirety of the contract. Costs include direct material, direct labor, subcontract labor, allocable depreciation and other allocable indirect costs and are charged to the periods as incurred. All unallocable indirect costs and corporate general and administrative costs are also charged to the periods as incurred. Any recognized revenues that have not been billed to a customer are recorded as an asset in “costs and estimated earnings in excess of billings on uncompleted contracts.” Any billings of customers in excess of recognized revenues are recorded as a liability in “Billings in excess of costs and estimated earnings on uncompleted contracts.” However, in the event a loss on a contract is foreseen, the Company will recognize the loss when such loss is determined.

For construction contracts that do not qualify for use of the percentage of completion method, the Company accounts for such contracts using the “completed contract method” of accounting in accordance with ASC 605-35. Under this method, contract costs are accumulated as deferred assets and billings and/or cash received are recorded to a deferred revenue liability account during the periods of construction, but no revenues, costs or profits are recognized in operations until the period upon completion of the contract. Costs include direct material, direct labor, subcontract labor, allocable depreciation and other allocable indirect costs. All unallocable indirect costs and corporate general and administrative costs are charged to the periods as incurred. However, in the event a loss on a contract is foreseen,

the Company will recognize the loss when such loss is determined. The deferred asset (accumulated contract costs) in excess of the deferred liability (billings and/or cash received) is classified as a current asset under "Costs in excess of billings on uncompleted contracts." The deferred liability (billings and/or cash received) in excess of the deferred asset (accumulated contract costs) is classified under current liabilities as "Billings in excess of costs on uncompleted contracts."

A contract is considered complete when all costs except insignificant items have been incurred and the installation is operating according to specifications or has been accepted by the customer.

The Company has contracts in various stages of completion. Such contracts require estimates to determine the appropriate cost and revenue recognition. Costs estimates are reviewed periodically on a contract-by-contract basis throughout the life of the contract such that adjustments to the profit resulting from revisions are made cumulative to the date of the revision. Significant management judgments and estimates, including the estimated costs to complete projects, must be made and used in connection with the revenue recognized in the accounting period. Current estimates may be revised as additional information becomes available.

The Company includes shipping and handling fees billed to customers as revenues, and shipping and handling costs as cost of revenues. The Company typically does not provide any warranties on its products other than those passed on to its customers from its manufacturers, if any. As the Company expands its product offerings, it may offer expanded and extended warranties on certain components or projects. In accordance with ASC 450-20-25, the Company accrues for product warranties when the loss is probable and can be reasonably estimated. At December 31, 2013, the Company has \$13,000 of accrued warranty reserve for a specific warranty claim. No further product warranty accrual has been recorded given the lack of historical warranty experience.

ENVISION SOLAR INTERNATIONAL INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012

RESEARCH AND DEVELOPMENT

In accordance with ASC 730-10, "Research and Development," expenditures for research and development of the Company's products are expensed when incurred, and are included in operating expenses. The Company recognized research and development costs of \$18,548 for the year ending December 31, 2013 and \$10,150 for the year ending December 31, 2012.

ADVERTISING

The Company conducts advertising for the promotion of its products and services. In accordance with ASC 720-35, "Advertising Costs," advertising costs are charged to operations when incurred; such amounts aggregated \$120,525 in 2013 and \$31,305 in 2012.

STOCK-BASED COMPENSATION

The Company follows ASC 718, "Compensation – Stock Compensation." ASC 718 requires companies to estimate and recognize the fair value of stock-based awards to employees and directors. The fair value of the portion of an award that is ultimately expected to vest is recognized as an expense over the requisite service periods using the straight-line attribution method.

The Company accounts for non-employee share-based awards in accordance with the measurement and recognition criteria of ASC 505-50 "Equity-Based Payments to Non-Employees".

The Company estimates the fair value of each stock option at the grant date by using the Black-Scholes option pricing model.

INCOME TAXES

The Company accounts for income taxes pursuant to the provisions of ASC Topic 740, "Income Taxes," which requires, among other things, an asset and liability approach to calculating deferred income taxes. The asset and liability approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. A valuation allowance is provided to offset any net deferred tax assets for which management believes it is more likely than not that the net deferred asset will not be realized.

The Company follows the provisions of ASC 740-10-25-5, "Basic Recognition Threshold." When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. In accordance with the guidance of ASC 740-10-25-6, the benefit of a tax position is recognized in the consolidated financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above should be reflected as a liability for unrecognized tax benefits in the accompanying balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. The Company believes its tax positions are all highly certain of being upheld upon examination. As such, the Company has not recorded a liability for unrecognized tax benefits. As of December 31, 2013, tax years 2008 through 2013 remain open for IRS audit. The Company has received no notice of audit from the IRS for any of the open tax years.

ENVISION SOLAR INTERNATIONAL INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012

The Company recognizes the benefit of a tax position when it is effectively settled. ASC 740-10-25-10, “Basic Recognition Threshold” provides guidance on how an entity should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. ASC 740-10-25-10 clarifies that a tax position can be effectively settled upon the completion of an examination by a taxing authority. For tax positions considered effectively settled, the Company recognizes the full amount of the tax benefit.

BASIC AND DILUTED NET LOSS PER COMMON SHARE

Basic net loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. Diluted net loss per common share is computed by dividing the net loss by the weighted average number of common shares outstanding for the period and, if dilutive, potential common shares outstanding during the period. Potential common shares consist of the incremental common shares issuable upon the exercise of stock options, stock warrants, convertible debt instruments or other common stock equivalents. Potentially dilutive securities are excluded from the computation if their effect is anti-dilutive.

Convertible debt convertible into 4,734,243 common shares, options to purchase 24,049,862 common shares and warrants to purchase 9,851,540 common shares were outstanding at December 31, 2013. Convertible debt convertible into 8,040,061 common shares, options to purchase 23,049,862 common shares and warrants to purchase 7,806,155 common shares were outstanding at December 31, 2012. Dilutive common stock equivalents were not included in the computation of diluted net loss per share in 2013 and 2012 because the effects would have been anti-dilutive due to the net losses. Due to the net loss in 2013 and 2012, basic and diluted net loss per share amounts are identical. These potential common shares may dilute future earnings per share.

CONTINGENCIES

Certain conditions may exist as of the date the consolidated financial statements are issued which may result in a loss to the Company, but which will only be resolved when one or more future events occur or fail to occur. Company management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an

exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Company or unasserted claims that may result in such proceedings, the Company's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein. If the assessment of a contingency indicates that it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated, then the estimated liability would be accrued in the Company's consolidated financial statements. If the assessment indicates that a potentially material loss contingency is not probable but is reasonably possible, or is probable but cannot be reasonably estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable would be disclosed. The Company does not include legal costs in its estimates of amounts to accrue.

SEGMENTS

The Company follows the guidance of ASC 280-10 for "Disclosures about Segments of an Enterprise and Related Information." During 2013 and 2012, the Company only operated in one segment; therefore, segment information has not been presented.

RECENT ACCOUNTING PRONOUNCEMENTS

Management does not believe that any recently issued, but not yet effective, accounting standards, if currently adopted, would have a material effect on the consolidated financial statements.

ENVISION SOLAR INTERNATIONAL INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012

2. GOING CONCERN

As reflected in the accompanying consolidated financial statements for the years ended December 31, 2013 and 2012, the Company had net losses of \$2,793,910 (which includes \$557,967 of stock based compensation expense) and \$2,481,728 (which includes \$832,225 of stock based compensation expense), respectively and cash used in operations of \$1,591,667 and \$1,162,812, respectively. Additionally, at December 31, 2013, the Company had a working capital deficit of \$2,604,146, stockholders' deficit of \$2,505,874, and accumulated deficit of \$27,616,098. These factors raise substantial doubt about the Company's ability to continue as a going concern.

Envision plans to pursue a capital raise to raise at least an additional \$2,000,000 during the upcoming months (See Note 15). The Company will also look to raise additional funds for further operating capital later in the fiscal year. Further, the Company will seek projects and systems sales that may provide additional revenues and operating profits. All such actions and funds, if successful, are expected to be sufficient to cover monthly operating expenses as well as meet minimum payments with respect to the Company's liabilities over the next twelve months in addition to providing additional working capital. From January 1, 2013 through December 31, 2013, the Company raised a net \$1,780,384 from an earlier offering that ended in the period ended June 30, 2013.

The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

3. CONTRACT ACCOUNTING AND ACCOUNTS RECEIVABLE

Billings in excess of costs and estimated earnings on uncompleted contracts represents billings and/or cash received that exceed accumulated revenues recognized on uncompleted contracts accounted for under the percentage of completion contract method (See Note 1).

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At December 31, 2013, billings in excess of costs and estimated earnings on uncompleted contracts consisted of the following for contracts accounted for using the percentage of completion method of accounting:

Billings and/or cash receipts on uncompleted contract	\$ 166,334
Less: Revenues recognized	(3,205)
Billings in excess of costs and estimated earnings on uncompleted contracts	\$ 163,129

At December 31, 2012, billings in excess of costs and estimated earnings on uncompleted contracts consisted of the following for contracts accounted for using the percentage of completion method of accounting:

Billings and/or cash receipts on uncompleted contract	\$60,000
Less: Revenues recognized	(33,162)
Billings in excess of costs and estimated earnings on uncompleted contracts	\$26,838

The Company records accounts receivable related to its construction contracts and its design services based on billings or on amounts due under the contractual terms. The allowance for doubtful accounts is based upon the Company's policy. Accounts receivable throughout the year may decrease based on payments received, credits for change orders, or back charges incurred.

ENVISION SOLAR INTERNATIONAL INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012

At December 31, 2013 and 2012, accounts receivable were as follows:

	December 31, 2013	December 31, 2012
Accounts receivable	\$ 191,159	\$ 342,770
Less: Allowance for doubtful accounts	(11,700)	(13,254)
Accounts receivable, Net	\$ 179,459	\$ 329,516

Bad debt expense (recovery) for 2013 and 2012 was \$11,700 and (\$14,488), respectively.

4. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets are summarized as follows:

	December 31, 2013	December 31, 2012
Prepaid Investment Advisory Services	\$ 17,956	\$ 48,675
Prepaid Insurance	20,299	14,506
Total prepaid expenses and other current assets	\$ 38,255	\$ 63,181

5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

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	Est. Useful Lives	December 31, 2013	December 31, 2012
Computer equipment and software	5 years	\$ 152,317	\$ 150,370
Furniture and fixtures	7 years	197,169	197,169
Office equipment	5 years	28,289	28,289
Machinery and equipment	5 years	68,160	28,159
Total property and equipment		445,935	403,987
Less accumulated depreciation		(357,070)	(312,711)
Property and Equipment, Net		\$ 88,865	\$ 91,276

Total depreciation expense for 2013 and 2012 was \$44,359 and \$60,428, respectively.

6. ACCRUED EXPENSES

The major components of accrued expenses are summarized as follows:

	December 31, 2013	December 31, 2012
Accrued vacation	\$ 100,304	\$ 77,903
Accrued officers' salary	68,749	68,749
Accrued interest	201,688	30,356
Accrued estimated losses on contracts	96,096	44,508
Accrued Rent	101,839	122,421
Other accrued expense	34,624	14,513
Total accrued expenses	\$ 603,300	\$ 358,450

ENVISION SOLAR INTERNATIONAL INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012

7. CONVERTIBLE NOTE PAYABLE – RELATED PARTY

During 2009, John Evey advanced \$100,000 to the Company and on October 1, 2009, the Company executed a 10% convertible promissory note for \$102,236, which included the total \$100,000 principal advanced plus \$2,236 of accrued interest. This note was due December 31, 2010 and was convertible to common shares at \$0.33 per share. There was no beneficial conversion feature at the note date. In December 2010, this note was extended until December 31, 2011. This note is subordinate to the Gemini Master Funds notes. On April 27, 2010, Mr. Evey was added to the Board of Directors of Envision (See Note 14).

Effective December 31, 2011, the Company entered into a further extension agreement to extend the maturity date of this note to December 31, 2012. There were no additional fees or discounts associated with this extension. Per generally accepted accounting principles, this modification was treated as an extinguishment, but as the market price of the Company's stock was below the conversion price at the time of the modification, there was no beneficial conversion feature that needed to be recorded.

Effective December 31, 2012, the Company entered into an additional extension agreement to extend the maturity date of this note to December 31, 2013. The conversion price for this note was reduced to \$0.20 per share of common stock. There were no additional fees or discounts associated with this extension. Per generally accepted accounting principles, this modification was treated as a debt extinguishment, but as the market price of the Company's stock was below the conversion price at the time of the modification, there was no beneficial conversion feature that needed to be recorded. During the fiscal year ended December 31, 2013, in lieu of interest payments, the Company made principal payments on this note amounting to \$12,067.

Effective December 31, 2013, the Company entered into a further extension agreement to extend the maturity date of this note to December 31, 2014. There were no additional fees or discounts associated with this extension. Per generally accepted accounting principles, this modification was treated as an extinguishment, but as the market price of the Company's stock was below the conversion price at the time of the modification, there was no beneficial conversion feature that needed to be recorded. The note continues to bear interest at a rate of 10%. The balance of the note as of December 31, 2013 is \$110,616 with accrued and unpaid interest amounting to \$12,273.

8. NOTES PAYABLE

On June 1, 2010, the Company entered into a Promissory Note with one of its vendors in exchange for the vendor cancelling its open invoices to the Company. Total outstanding payables recorded by the Company at the time of conversion were \$179,702. The note amount was for \$160,633 and bears interest at 10%. The Company recorded a gain on the conversion of \$19,069. The note can be converted only at the option of the Company, at any time, into common stock with a conversion price of \$0.33 per share. In May, 2011, the Company made a partial conversion of this note into 100,000 shares of common stock. The Company recorded a payment of interest of \$17,384, a reduction of outstanding debt of \$15,616 and a loss on the settlement of debt of \$2,000 related to this transaction. The note, plus the accrued interest was due and payable on December 31, 2011. Effective December 31, 2011, the Company entered an amendment to this note extending the maturity date of the note to December 31, 2012. No other terms of the note were changed.

During 2012, the Company made partial conversions of this note into 250,000 shares of the Company's common stock. The shares were valued at their quoted trade prices aggregating to \$48,500. The Company recorded payments of interest of \$17,014, a reduction of principal of \$65,486, and a gain on settlement of debt of \$34,000 related to these transactions. Further, effective as of December 31, 2012, the Company entered into an amendment to this note extending the maturity date of the note to December 31, 2013 as well as reducing the conversion price of the note to \$0.20 per share of common stock and amending the balance of the note, including accrued interest of \$2,005 through December 31, 2012 and a modification fee of \$15,464, to \$97,000. This modification was treated as a debt extinguishment and the Company recorded a loss on the debt extinguishment of \$15,464 related to this amendment.

ENVISION SOLAR INTERNATIONAL INC. AND SUBSIDIARY**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012**

During 2013, the Company made partial conversions of this note into 150,000 shares of the Company's common stock. The shares were valued at their quoted trade prices aggregating to \$28,500. The Company recorded payments of interest of \$6,033, a reduction of principal of \$23,967, and a gain on settlement of debt of \$1,500 related to these transactions. Further, effective as of December 31, 2013, the Company entered into an amendment to this note extending the maturity date of the note to December 31, 2014. There was no accounting effect for this extension. As of December 31, 2013, the note had a remaining balance due of \$73,033 with accrued and unpaid interest amounting to \$3,063. (See Note 11)

9. CONVERTIBLE NOTES PAYABLE AND FAIR VALUE MEASUREMENTS***Summary:***

As of December 31, 2013, the following summarizes principal amounts owed under convertible notes:

	Amount	<u>Discount</u>	Convertible Notes Payable, <u>net of</u> <u>discount</u>
Pegasus Note	\$ 100,000	\$ –	\$ 100,000
Gemini Master Fund – Second Amended Note and Note Five	1,313,877	–	1,313,877
Gemini Master Fund – Note 2010-3	92,449	–	92,449
	\$1,506,326	\$ –	\$1,506,326

As of December 31, 2012, the following summarizes principal amounts owed under convertible notes:

Amount	Discount
--------	----------

			Convertible Notes Payable, net of discount
Pegasus Note	\$ 100,000	\$-	\$ 100,000
Gemini Master Fund – Second Amended Note and Note Five	1,313,877	426,092	887,785
Gemini Master Fund – Note 2010-3	92,449	29,981	62,468
	\$ 1,506,326	\$ 456,073	\$ 1,050,253

Pegasus Note:

On December 19, 2009, the Company entered into a convertible promissory note for \$100,000 to a new landlord in lieu of paying rent for one year for new office space. The interest is 10% per annum with the note principal and interest originally due December 18, 2010 and subsequently extended until December 31, 2011. However, if the Company receives greater than \$1,000,000 of proceeds from debt or equity financing, 25% of the amount in excess of \$1,000,000 shall be used to pay down the note. This note is subordinate to all existing senior indebtedness of the Company. This note is convertible at \$0.33 per share and there was no beneficial conversion feature at the note date.

Effective December 31, 2011, the Company entered into a modification extending the term of the note to December 31, 2012. Per generally accepted accounting principles, this modification was treated as a debt extinguishment, but as the market price of the Company's stock was below the conversion price at the time of the modification, there was no beneficial conversion feature that needed to be recorded.

ENVISION SOLAR INTERNATIONAL INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012

Effective December 31, 2012, the Company entered into an additional modification extending the term of the note to December 31, 2013, and waiving, through December 31, 2012, the requirement to pay down the note with financing proceeds received by the Company in the period. Per generally accepted accounting principles, this modification was treated as a debt extinguishment, but as the market price of the Company's stock was below the conversion price at the time of the modification, there was no beneficial conversion feature that needed to be recorded.

Effective December 31, 2013, the Company entered into an additional modification extending the term of the note to June 30, 2014, and waiving, through December 31, 2013, the requirement to pay down the note with financing proceeds received by the Company in the period. Per generally accepted accounting principles, this modification was treated as a debt extinguishment, but as the market price of the Company's stock was below the conversion price at the time of the modification, there was no beneficial conversion feature that needed to be recorded. The balance of the note as of December 31, 2013 is \$100,000 with accrued and unpaid interest amounting to \$40,356.

Gemini Second Amended Note and Note Five:

At the end of 2010, the Company had outstanding two convertible notes to Gemini Master Fund, Ltd (the "holder" or "lender") originally due December 31, 2010. These notes bore interest at a rate of 12% per annum and have a conversion feature whereby, the lender, at its option, may at any time convert this loan into common stock at \$0.25 per share. Interest under these notes is due on the first business day of each calendar quarter, however, upon three days advance notice, the Company may elect to add such interest to the note principal balance effectively making the interest due at note maturity. With regard to the conversion feature of these notes, the conversion rights contain price protection whereby if the Company sold equity or converted existing instruments to common stock at a price less than the stated conversion price, the conversion price will be adjusted downward to the sale price. Furthermore, if the Company issues new rights, warrants, options or other common stock equivalents at an exercise price that is less than the stated conversion price, then the conversion price shall be adjusted downward to a new price based on a stipulated formula. The holder may not convert the debt if it results in the holder beneficially holding more than 4.9% of the Company common stock. The note is secured by substantially all assets of the Company and any of its subsidiaries, and is unconditionally guaranteed by all the subsidiaries.

Prior to June 30, 2010, all shares underlying the Gemini Master Fund convertible debt were subject to a lock-up agreement as stated above, and the shares were not easily convertible to cash thus, the embedded conversion option did not need to be bifurcated and recorded as a fair value derivative due to the price protection provision in the notes. Subsequent to June 30, 2010, such lock-up provisions expired and as such, the Company has determined that the embedded conversion option met the definition of a derivative liability and thus must be bifurcated and recorded as a fair value derivative. Further, through an extension agreement, the maturity date of the note was modified to December 31, 2011.

On December 31, 2011, the Company entered into a second extension and amendment agreement modifying certain terms of the notes. The interest rate was reduced to 10%; the conversion price was reduced from \$0.25 to \$0.20; and the term was extended to December 31, 2012. These changes were accounted for as a debt modification but not as a debt extinguishment. As a result of this transaction, the Company has recorded \$614,114 of embedded conversion option based effective interest based on the increase in the fair value of the embedded conversion option due to the modification which is recorded as debt discount and will be amortized over the remaining term of the loan. Further, at the modification date, \$132,736 of accrued interest was added to the loan balance. At December 31, 2011, the notes had a total balance of \$1,190,308, and a net balance of \$576,194.

On December 31, 2012, the Company entered into a third extension and amendment agreement whereas the term of the note was extended to December 31, 2013. As a part of this amendment, the Company agreed to cause Robert Noble, its chairman, to execute a lock-up agreement whereas Mr. Noble agrees not to sell or transfer any shares of Envision common stock until a defined restriction period expires. Mr. Noble delivered such lock-up agreement. No other terms were modified, but the Company paid a \$5,000 fee to cover legal and document fees which was capitalized as an asset on the balance sheet as "Debt issue costs" and will be amortized over the remaining life of the note. This change was accounted for as a debt modification but not as a debt extinguishment because the embedded conversion feature is bifurcated and treated as a derivative. As a result of this transaction, the Company has recorded \$426,092 of embedded conversion option based effective interest based on the increase in the fair value of the embedded conversion option due to the modification which is recorded as debt discount and was amortized over the remaining term of the loan. Further, at the modification date, \$123,569 of accrued interest was added to the loan balance. At December 31, 2012, the note had a total balance of \$1,313,877, and a net balance of \$887,785.

ENVISION SOLAR INTERNATIONAL INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012

During 2013, as a result of our private offering, the conversion feature of this note triggered certain conversion rights whereas the conversion price of this note was reduced to \$0.15 per share. Further, at December 31, 2013, the balance of the note became due and payable. As of December 31, 2013, the note has a balance of \$1,313,877 and accrued and unpaid interest amounting to \$136,397. See Note 15.

Gemini Note 2010-3:

On April 22, 2010, the Company entered into a new non-secured note with Gemini Master Fund, LTD, Note No. 2010-3, for \$50,000. This note bore interest at 12% per annum, payable in quarterly installments of the accrued and unpaid interest, beginning July 1, 2010, with the note originally maturing on August 20, 2010. In the event a quarterly payment is late, it incurs a late fee of 20%. On December 31, 2010, the Company entered into a revised agreement to extend the maturity date of the note to December 31, 2011. As a part of this agreement, all accrued and unpaid interest amounting to \$4,247 was capitalized into the note balance along with an extension fee of \$4,069. Such extension fee, recorded as debt discount, was amortized to interest expense over the remaining term of the note.

Effective December 31, 2011, the Company entered into an agreement to modify the terms of this note. As a result of this modification, the maturity date of the note was extended to December 31, 2012; the per annum interest rate of the note was lowered to 10%; and the note became convertible with a conversion feature whereby, the lender, at its option, may at any time convert this loan into common stock of the Company at \$0.20 per share. All terms related to the conversion process are deemed to be the same terms as the other Gemini notes discussed above. All other terms of the original note remain the same. These changes were accounted for as a debt modification but not a debt extinguishment because the embedded conversion feature is bifurcated and treated as a derivative. As a result of this transaction, the Company has recorded \$33,863 of embedded conversion option based effective interest based on the increase in the fair value of the embedded conversion option due to the modification which is recorded as debt discount and was amortized over the remaining term of the loan. Further, at this modification date, \$7,319 of accrued interest was added to the loan balance. At December 31, 2011, the note had a total balance of \$65,635, and a net balance of \$31,772.

Effective December 31, 2012, the Company entered into a further agreement to modify the maturity date of this note to December 31, 2013. No other terms of the note were modified. These changes were accounted for as a debt

modification but not a debt extinguishment because the embedded conversion feature is bifurcated and treated as a derivative. As a result of this transaction, the Company recorded \$29,981 of embedded conversion option based effective interest based on the increase in the fair value of the embedded conversion option due to the modification which is recorded as debt discount and was amortized over the remaining term of the loan. Further, at this modification date, a \$20,000 accounts payable balance was converted into the note balance and \$6,814 of accrued interest was added to the note balance. At December 31, 2012, the note had a total balance of \$92,449, and a net balance of \$62,468.

During 2013, as a result of our private offering, the conversion feature of this note triggered certain conversion rights whereas the conversion price of this note was reduced to \$0.15 per share. Further, at December 31, 2013, the balance of the note became due and payable. As of December 31, 2013, the note has a balance of \$92,449 and accrued and unpaid interest amounting to \$9,597. See Note 15.

ENVISION SOLAR INTERNATIONAL INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012

Hickson Note:

On September 8, 2011, the Company entered into a convertible promissory note for \$1,000,000 to a private individual. The interest is 9% per annum with the note principal and interest due December 31, 2012. This note is subordinate to all existing senior indebtedness of the Company. This note is convertible at \$0.29 per share. As it relates to this note, the Company recorded \$34,483 of beneficial conversion feature intrinsic value which is recorded as debt discount and is being amortized over the term of the note. As of December 31, 2011, this note had a total outstanding balance of \$1,000,000 and a balance, net of discount, of \$973,723.

On March 22, 2012, the Company entered into an amendment with Mr. Hickson related to this note. The amendment amended the terms of the note allowing for the conversion of any accrued and unpaid interest to convert to common stock at an exercise price equal to the market price of our common stock on the day of conversion. Further on March 22, 2012, Mr. Hickson provided notice to the Company to convert his entire principal and accrued interest into common stock of the Company. As such, the Company issued 3,448,276 shares of common stock at \$0.29 (based on contractual terms of the note) related to the principal and 199,315 shares of common stock at \$0.24 (based on market price at time of transaction) for interest or a total of 3,647,591 shares of common stock in retirement of all outstanding obligations related to this convertible note. All remaining debt discount was expensed to interest in accordance with ASC 470-20-40-1. There was no gain or loss recorded on this transaction. (See note 11 and 12)

Fair Value Measurements – Derivative liability:

The accounting guidance for fair value measurements provides a framework for measuring fair value and requires expanded disclosures regarding fair value measurements. Fair value is defined as the price that would be received for an asset or the exit price that would be paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. The accounting guidance established a fair value hierarchy which requires an entity to maximize the use of observable inputs, where available. This hierarchy prioritizes the inputs into three broad levels as follows. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. Level 3 inputs are unobservable inputs based on the Company's

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own assumptions used to measure assets and liabilities at fair value. An asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

Assets and liabilities measured at fair value on a recurring and non-recurring basis consisted of the following at December 31, 2012 and 2013:

	Carrying Value at December 31, 2012	Fair value Measurements at December 31, 2012	
		(Level 1) 2)	(Level 3)
Embedded Conversion Option Liability	\$ 456,073	\$ -	\$ - \$ 456,073

	Carrying Value at December 31, 2013	Fair value Measurements at December 31, 2013	
		(Level 1) 2)	(Level 3)
Embedded Conversion Option Liability	\$ 281,265	\$ -	\$ - \$ 281,265

ENVISION SOLAR INTERNATIONAL INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012

The following is a summary of activity of Level 3 liabilities for the period ended December 31, 2012 and 2013:

Balance at December 31, 2011	\$647,977
Increase in liability due to debt modification	456,073
Change in fair value	(647,977)
Balance at December 31, 2012	\$456,073
Increase in liability due to debt modification	–
Change in fair value	(174,808)
Balance December 31, 2013	\$281,265

Changes in fair value of the embedded conversion option liability are included in other income (expense) in the accompanying consolidated statements of operations.

The Company estimates the fair value of the embedded conversion liability utilizing the Black-Scholes pricing model, which is dependent upon several variables such as the expected term (based on contractual term), expected volatility of our stock price over the expected term (based on historical volatility), expected risk-free interest rate over the expected term, and the expected dividend yield rate over the expected term. The Company believes this valuation methodology is appropriate for estimating the fair value of the derivative liability. The following table summarizes the assumptions the Company utilized to estimate the fair value of the embedded conversion option at December 31, 2013 and 2012:

<u>Assumptions</u>	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Expected term	0.0	1.0
Expected Volatility	134%	113%
Risk free rate	0.02%	0.16%
Dividend Yield	0.00%	0.00%

There were no changes in the valuation techniques during 2013. The Company did however compute the valuation of this derivative liability using a binomial lattice model noting no material differences in valuation results. The weighted

average interest rate for short term notes as of December 31, 2013 was 10%.

10. COMMITMENTS AND CONTINGENCIES

Leases:

Prior to 2010, the Company entered into litigation with a previous landlord related to leased office space that the Company abandoned prior to its lease expiration. (See Legal Matters below). In 2010, a legal judgment was entered awarding the landlord legal possession of premises as well as \$94,170, plus interest at 10%, as satisfaction of all claims. During 2013, the Company entered into a further settlement arrangement with the debtor such that monthly payments amounting to \$10,000 per month will be made by the Company until the obligation is satisfied. The Company has recorded a liability for this obligation, with the unpaid balance amounting to \$101,839 and \$122,421 as of December 31, 2013 and December 31, 2012 respectively.

In December 2009, the Company entered into a new 4-year lease for new premises. The lease agreement includes a \$100,000 note payable feature as discussed in Note 9, for the first year, and then includes rent increases each year thereafter. As of December 31, 2013, the original lease term had expired and the lease has converted into a month to month instrument. As such, there is no remaining financial obligation.

Rent expense was \$107,168 and \$104,156 for the years ended December 31, 2013 and 2012, respectively.

ENVISION SOLAR INTERNATIONAL INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012

Legal Matters:

From time to time, we may be involved in litigation relating to claims arising out of our operations in the normal course of business. As of December 31, 2013, there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of our operations except for the following:

The Company was a party to a lawsuit with its former landlord whereby the landlord claims that the Company broke its lease with respect to the rental of office space, which housed the Company's headquarters. The Company vacated premises on December 20, 2009 and the landlord repossessed premises on January 1, 2010. In 2010, a judgment was entered whereby Envision was ordered to pay \$94,170 plus 10% interest until paid in satisfaction of all claims. The Company entered into a further settlement agreement with the debtor such that monthly payments amounting to \$10,000 per month will be made by the Company until the obligation is satisfied. As of December 31, 2013, the accrued and unpaid portion of this liability amounted to \$101,839. (See "Leases" above)

Other Commitments:

The Company enters into various contracts or agreements in the normal course of business whereby such contracts or agreements may contain commitments. During 2013 and 2012, the Company has agreements to act as a reseller for certain vendors; joint development contracts with third parties; sales agent agreements whereby sales agents would receive a fee equal to a percentage of revenues generated by the agent; business development agreements and strategic alliance agreements where both parties have agreed to cooperate and provide business opportunities to each other and in some instances, provide for a right of first refusal with respect to certain projects of the other parties; agreements with vendors where the vendor may provide marketing, public relations, technical consulting or subcontractor services and financial advisory agreements where the financial advisor would receive a fee and/or commission for advising and raising capital for the Company. All expenses and liabilities relating to such contracts were recorded in accordance with generally accepted accounting principles during the periods. Although such agreements increase the risk of legal actions against the Company for potential non-compliance, other than revenue generating sales contracts, there are no firm commitments in such agreements as of December 31, 2013.

Upon the signing of customer contracts, the Company enters into various other agreements with third party vendors who will provide services and/or products to the Company. Such vendor agreements may call for a deposit along with certain other payments based on the delivery of goods or services. Payments made by the Company before the completion of projects are treated as ongoing project expenses and due to the contractual nature of the agreements; the Company may be contingently liable for other payments required under the agreements.

F-20

ENVISION SOLAR INTERNATIONAL INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012

11. COMMON STOCK

Shares Issued

Issuances of the Company's common stock during the years ended December 31, 2013 and 2012, respectively, are as follows:

2013

Stock Issued in Cash Sales

During the year ended December 31, 2013 pursuant to private placements, the Company issued 12,901,333 shares of common stock for cash with a per share price of \$0.15 per share or \$1,935,200 and the Company incurred \$154,816 of capital raising fees that were paid in cash and charged to additional paid-in capital.

Stock Issued for Services

In March 2013, the Company issued 250,000 shares of common stock with a per share value of \$0.15 (based on contemporaneous cash sales prices) or \$37,500, for professional services to be rendered. The shares were fully vested and were expensed over the six month term of the payment.

In September 2013, the Company issued 304,000 shares of common stock with a per share value of \$0.18 (based on market price at the time of the transaction) or \$54,720, for professional services. \$6,480 was expensed for services rendered while \$48,240 was recorded as a prepaid asset and is being expensed over the remaining six month term of the agreement.

Stock Issued in Settlement of Note Payable

In October 2013, the Company issued 150,000 shares of common stock with a per share value of \$0.19 (based on market price at time of transaction) or \$28,500 as a partial payment of outstanding debt. The Company recorded a reduction of notes payable of \$23,967, a reduction of accrued interest of \$6,033 and a gain on debt settlement of \$1,500 related to this transaction. (See Note 8)

2012

Stock Issued in Cash Sales

During the year ended December 31, 2012 pursuant to private placements, the Company issued 4,200,000 shares of common stock for cash with a per share price of \$0.25 per share or \$1,050,000 and the Company incurred \$84,000 of capital raising fees that were paid in cash and charged to additional paid-in capital.

Stock Issued for Services

In May 2012, the Company issued 31,786 shares of common stock with a per share value of \$0.22 (based on market price at the time of the transaction) or \$6,993, for professional services rendered. The shares were fully vested and expensed during the three months ended June 30, 2012.

In October 2012, the Company issued 562,500 vested shares of common stock with a per share value of \$0.12 (based on market price at the time of the transaction) or \$67,500, for professional services to be rendered. The value of this contract was recorded as a prepaid asset and will be amortized over the nine month term of the agreement.

ENVISION SOLAR INTERNATIONAL INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012

Stock Issued for Conversion of Convertible Debt

On March 22, 2012, a lender provided notice to the Company to convert the entire principal and accrued interest of his outstanding convertible note into common stock of the Company. As such, the Company issued 3,448,276 shares of common stock at \$0.29 (based on contractual terms of the note) related to the \$1,000,000 of principal and 199,315 shares of common stock at \$0.24 (based on market price at time of transaction) for the \$47,836 of accrued interest or a total of 3,647,591 shares of common stock in retirement of all outstanding obligations related to this convertible note. (See note 9)

Stock Issued in Settlement of Note Payable

In April 2012, the Company issued 100,000 shares of common stock with a per share value of \$0.29 (based on market price at time of transaction) or \$29,000 as a partial payment of outstanding debt. The Company recorded a reduction of notes payable of \$22,114, a reduction of accrued interest of \$10,886 and a gain on debt settlement of \$4,000 related to this transaction. (See Note 8)

In October 2012, the Company issued 150,000 shares of common stock with a per share value of \$0.13 (based on market price at time of transaction) or \$19,500 as a partial payment of outstanding debt. The Company recorded a reduction of notes payable of \$43,372, a reduction of accrued interest of \$6,128 and a gain on debt settlement of \$30,000 related to this transaction. (See Note 8)

12. STOCK OPTIONS AND WARRANTS

On August 10, 2011, the Company's Board of Directors approved and caused the Company to adopt the Envision Solar International, Inc. 2011 Stock Incentive Plan (the "Plan"), which authorizes the issuance of up to 30,000,000 shares of the Company's common stock pursuant to the exercise of stock options or other awards granted under the Plan.

In 2008, the Board approved the 2008 equity Incentive Plan, which authorizes 6,108,571 shares under the plan. Exercise rights may not expire more than three months after the date of termination of the employee but may expire in less time as stipulated in the individual grant notice. For disability or death, the optionee or estate will generally have up to twelve months to exercise their options. For certain options the Company may have rights of first refusal for a stipulated period of time, under a separate stock restriction agreement, whereby if the holder exercise the options and then desires to sell the underlying shares, the Company has the right to repurchase such shares at a price to which the holder has agreed to sell them to a third party.

In 2007, the Company authorized the 2007 Unit Option Plan when the Company was a limited liability company. Options granted under this plan were exchanged one for one for options of Envision Solar International, Inc. upon conversion to a corporation from an LLC. In March 2012, the Board of Directors effectively terminated the 2007 Plan. (See Note 1)

Stock Options

The Company follows the provisions of ASC Topic 718, "Compensation – Stock Compensation." ASC Topic 718 establishes standards surrounding the accounting for transactions in which an entity exchanges its equity instruments for goods or services. ASC Topic 718 focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions, such as options issued under the Company's Stock Option Plans. The Company's stock option compensation expense was \$435,028 and \$766,732 for the years ended December 31, 2013 and 2012, respectively, and there was \$410,588 of total unrecognized compensation cost related to unvested options granted under the Company's options plans as of December 31, 2013. This stock option expense will be recognized through July 2017.

ENVISION SOLAR INTERNATIONAL INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012

The fair value of each option is estimated on the date of grant using the Black-Scholes option-pricing model. This model incorporates certain assumptions for inputs including a risk-free market interest rate, expected dividend yield of the underlying common stock, expected option life and expected volatility in the market value of the underlying common stock.

In February 2010, the Company entered into a letter agreement with its Chief Executive Officer, pursuant to which the Officer agreed to terminate all of his options under Envision's 2007 Unit Option Plan and 2008 Equity Incentive Plan upon the issuance to the Officer of a new option to purchase an aggregate of 9,162,856 shares of common stock under a new plan at an exercise price of \$0.33 per share which options vest immediately upon the Company's achievement of cumulative gross revenues of either (i) \$15,000,000 during the fiscal year ended December 31, 2010 or (ii) \$30,000,000 prior to December 31, 2014.

From January 1, 2012 through December 31, 2012, the Company issued 600,000 stock options under the plans with a total valuation of \$101,632.

From January 1, 2013 through December 31, 2013, the Company issued 1,000,000 stock options under the plan with a total valuation of \$164,935.

We used the following assumptions for options granted in fiscal 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Expected volatility	128.75 -134.02%	106.70%
Expected lives	5 -10 Years	3 -5.5 Years
Risk-free interest rate	0.02%	0.21%
Expected dividend yield	None	None

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options and warrants have characteristics different from those of its traded stock, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of such stock options. The risk free interest rate is based upon quoted market yields for United States Treasury debt securities with a term similar to the expected term. The expected dividend yield is based upon the Company's history of having never issued a dividend and management's current expectation of future action surrounding dividends. Expected volatility was based on historical data for the trading of our stock on the open market. The expected lives for such grants were based on the simplified method for employees and directors.

All options qualify as equity pursuant to ASC 815-40-25, "Contracts in Entity's Own Equity."

F-23

ENVISION SOLAR INTERNATIONAL INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012

Option activity for the years ended December 31, 2013 and 2012 under the 2008 and 2011 Plans is as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding at December 31, 2011	22,755,291	\$ 0.31
Granted	600,000	0.24
Exercised	—	—
Forfeited	—	—
Expired	(305,429)	0.33
Outstanding at December 31, 2012	23,049,862	\$ 0.31
Exercisable at December 31, 2012	13,887,006	\$ 0.29
Weighted average grant date fair value		\$ 0.17
Granted	1,000,000	0.19
Exercised	—	—
Forfeited	—	—
Expired	—	—
Outstanding at December 31, 2013	24,049,862	\$ 0.30
Exercisable at December 31, 2013	14,555,583	\$ 0.29
Weighted average grant date fair value		\$ 0.16

The following table summarizes information about employee stock options outstanding at December 31, 2013:

Options Outstanding			Options Exercisable				
Range of Exercise Price	Number Outstanding at December 31, 2013	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Aggregate Intrinsic Value	Number Exercisable at December 31, 2013	Weighted Average Exercise Price	Aggregate Intrinsic Value
\$0.165-1.31	24,049,862	6.85 Years	\$ 0.30	\$ —	14,555,583	\$ 0.29	\$ —
	24,049,862	6.85 Years	\$ 0.30	\$ —	14,555,583	\$ 0.29	\$ —

As the Company's stock price was lower than the weighted average exercise price at December 31, 2013, there is no aggregate intrinsic value of the options.

Options exercisable have a weighted average remaining contractual life of 6.32 years as of December 31, 2013.

F-24

ENVISION SOLAR INTERNATIONAL INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012

Warrants

2013

In connection with the private placement which occurred in 2013, purchasing stockholders were entitled to receive warrants to purchase shares of the Company equal to the number of units that were purchased. Based on the number of units sold, the Company issued 6,450,667 warrants to purchase one share of common stock for each warrant. The warrants have an exercise price of \$0.20 per share and expire one year from the date of issuance.

Further, as a part of the Company's private placement in 2013, the Company issued 645,067 warrants to the placement agents. These warrants, valued at \$130,402, are exercisable for 5 years at an exercise price of \$0.25. There was no financial statement accounting effects for the issuance of these warrants as the value has been fully charged to Additional Paid-in-Capital as an offering cost against the offering proceeds. The Company estimated the fair value of the warrants utilizing the Black-Scholes pricing model. The assumptions used in the valuation of these warrants include:

Assumptions

Expected term	5 yrs
Expected Volatility	30.96%
Risk free rate	0.14%
Dividend Yield	0.00%

2012

In conjunction with the conversion of the Hickson convertible promissory note in March 2012 (See note 9), the Company paid a cash fee of \$40,000 and an issuance of 68,966 warrants, each with a 5 year term and an exercise price

of \$0.29, for a total warrant valuation of \$12,274 based on the Black-Scholes pricing model to Allied Beacon, the registered placement agent of the note. The assumptions used in the valuation of these warrants include:

Assumptions

Expected term	5 yrs
Expected Volatility	105.82%
Risk free rate	0.214%
Dividend Yield	0.00%

These fees were expensed to interest at the conversion date. Jay Potter, our director, was a registered representative of Allied Beacon. (See note 14)

As a part of the Company's private placement in 2012, the Company issued 210,000 warrants to Allied Beacon, the placement agents. These warrants, valued at \$30,590, are exercisable for 5 years at an exercise price of \$0.275. There was no financial statement accounting effects for the issuance of these warrants as the value has been fully charged to Additional Paid-in-Capital as an offering cost against the offering proceeds. Jay Potter, our director, was a registered representative of Allied Beacon. (See note 14)

ENVISION SOLAR INTERNATIONAL INC. AND SUBSIDIARY**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012**

Warrant activity for the years ended December 31, 2013 and 2012 are as follows:

	Number of Warrants	Weighted Average Exercise Price
Outstanding at December 31, 2011	10,537,003	\$ 0.46
Granted	278,966	0.28
Exercised	—	—
Forfeited	—	—
Expired	(3,009,814)	0.50
Outstanding at December 31, 2012	7,806,155	\$ 0.44
Exercisable at December 31, 2012	7,806,155	\$ 0.44
Weighted average grant date fair value		\$ 0.15
Granted	7,095,734	0.43
Exercised	—	—
Forfeited	—	—
Expired	(5,050,349)	0.52
Outstanding at December 31, 2013	9,851,540	\$ 0.23
Exercisable at December 31, 2013	9,851,540	\$ 0.23
Weighted average grant date fair value		\$ 0.20

Warrants exercisable have a weighted average remaining contractual life of 1.15 years as of December 31, 2013.

13. INCOME TAXES

There was no Federal income tax expense for the years ended December 31, 2013 and 2012 due to the Company's net losses. Income tax expense represents minimum state taxes due.

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The blended Federal and State tax rate of 40.2% applies to loss before taxes. The Company's tax expense differs from the "expected" tax expense for Federal income tax purposes, (computed by applying the United States Federal tax rate of 34% to loss before taxes), as follows:

	Year ended December	
	31,	
	2013	2012
Computed "expected" tax expense (benefit)	\$ (949,929)	\$ (843,193)
State taxes, net of federal benefit	(173,132)	(180,827)
Goodwill impairment and other non-deductible items	76,599	(155,420)
Change in deferred tax asset valuation allowance	1,048,062	1,181,188
Income tax expense	\$1,600	\$1,748

F-26

ENVISION SOLAR INTERNATIONAL INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The effects of temporary differences that gave rise to significant portions of deferred tax assets and liabilities at December 31 are as follows:

	2013	2012
Deferred tax assets:		
Accrued vacation	\$–	\$12,430
Accrued salaries	–	27,386
Charitable contributions	4,128	2,731
Reserve for bad debt	30,006	18,684
Stock options	4,411,279	4,237,988
Inventory Adjustment	3,326	–
Other	7,502	3,751
Net operating loss carryforward	6,183,779	5,193,118
Total gross deferred tax assets	10,640,020	9,496,088
Less: Deferred tax asset valuation allowance	(10,528,703)	(9,480,641)
Total net deferred tax assets	111,317	15,447
Deferred tax liabilities:		
Depreciation	(111,317)	(15,447)
Total deferred tax liabilities	(111,317)	(15,447)
Total net deferred taxes	\$–	\$–

The valuation allowance at December 31, 2013 was \$10,528,703. The increase in the valuation allowance during 2013 was \$1,048,062.

At December 31, 2013, the Company has a net operating loss carry forward of \$15,523,716 available to offset future net income through 2033. The NOL expires during the years 2014 to 2033. The utilization of the net operating loss carryforwards is dependent upon the ability of the Company to generate sufficient taxable income during the carryforward period. In the event that a significant change in ownership of the Company occurs as a result of the Company's issuance of common stock, the utilization of the NOL carry forward will be subject to limitation under certain provisions of the Internal Revenue Code. Management does not presently believe that such a change has occurred.

14. RELATED PARTY TRANSACTIONS

Accounts Payable and Related Party Vendor Payments

During 2013, the Company made payments totaling \$56,750 to GreenCore Capital, LLC for professional services provided to the Company. Jay Potter, our director, is the managing member of GreenCore Capital LLC.

Desmond Wheatley, the current CEO and President of the Company, is the owner of a consulting firm that provided services to the Company during 2010, including his own personal services. As of December 31, 2011, the Company had a balance owed to this consulting firm of \$109,145 that is included in Accounts Payable –Related Party. This balance was paid during 2012.

Prior to November 2012, Jay Potter, our director, was a registered representative of Allied Beacon and had been engaged through Allied Beacon to provide capital raising services to the Company as it related to the Company's 2012 private offering. In 2012, the Company has paid \$84,000 of cash offering costs related to these services all of which have been accounted for as a reduction of additional paid in capital. Further, in March 2012, in conjunction with the conversion of this loan to common stock of the Company, the Company paid a cash fee of \$40,000 to Allied Beacon and an issuance of 68,966 warrants, each with a 5 year term for a total warrant valuation of \$12,274. (See notes 9 and 12)

F-27

ENVISION SOLAR INTERNATIONAL INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012

Note Payable to Officer

In 2009, the Company executed a 10% convertible note payable in the amount of \$102,236 due December 31, 2010 to John Evey for amounts loaned to the Company. Mr. Evey joined the Board of Directors on April 27, 2010. Through a series of extensions, the note due date was extended to December 31, 2014. During the fiscal year ended December 31, 2013, in lieu of interest payments, the Company made principal payments on this note amounting to \$12,067. The balance of the note as of December 31, 2013 is \$110,616 with accrued and unpaid interest amounting to \$12,273. (See Note 7)

15. SUBSEQUENT EVENTS

During the period from January 1, 2014 to the date of this report, pursuant to private placements, the Company issued 6,050,000 shares of common stock for cash with a per share price of \$0.15 per share or \$907,500, and the Company incurred \$24,000 of capital raising fees that will be paid in cash and charged to additional paid in capital. The Company also issued 6,050,000 warrants included in the offering price and is obligated to issue 100,000 warrants to the placement agent.

On January 23, 2014, Mr. Paul H. Feller accepted an appointment as a new director of the Company effective January 23, 2014. In consideration for Mr. Feller's acceptance to serve as a director of the Company, the Company granted 1,000,000 restricted shares of its common stock to him, subject to the terms and conditions set forth in the Restricted Stock Grant Agreement including but not limited to the following vesting schedule: 166,672 shares on January 24, 2014 and then 69,444 shares on the last day of each calendar quarter thereafter commencing on March 31, 2014. The total value of this stock grant is \$0.17 per share (based on market price at the time of the transaction) or \$170,000. The share value will be expensed proportionately as the shares vest.

On February 7, 2014, the Company issued 200,000 stock options to each of its three non executive directors other than Mr. Feller, for a total of 600,000 stock options. All of these stock options will vest over the current year of board service and were valued using the Black-Scholes option pricing methodology. Jay Potter and John Evey each

received 200,000 options with a term of 10 years and a strike price of \$0.17 with a combined total valuation of \$57,159. Robert Noble received 200,000 options with a term of 5 years and a strike price of \$0.187 for a total valuation of \$25,996. The assumptions used in the valuation of these options include volatility of 138.71%, expected dividends of 0.0%, a discount rate of 1.52%, and expected terms, applying the simplified method, of 5.5 years for Mr. Potter and Mr. Evey and 3 years for Mr. Noble.

As of February 28, 2014 the Company entered into a fourth extension and amendment agreement with a simultaneous principal conversion agreement related to the convertible notes payable to Gemini Master Fund (“Gemini”). With this agreement, all outstanding notes have been merged into one note, the term of the note was extended to June 30, 2015 and the beneficial holder ceiling was increased to 9.9%. No other terms of the notes were modified. These changes were accounted for as a debt modification but not as a debt extinguishment because the embedded conversion feature is bifurcated and treated as a derivative and no other debt extinguishment criteria were met. As a result of this transaction, the Company will record \$618,536 of embedded conversion option based effective interest based on the increase in the fair value of the embedded conversion option due to the modification which will be recorded as debt discount and amortized over the remaining term of the loan. The Company also issued 1,500,000 common stock purchase warrants valued at \$193,625 using the Black-Scholes valuation methodology, each with a three year term and \$0.20 strike price, to the holder which will be recorded as debt discount and amortized over the remaining term of the note. The Company agreed to pay a \$6,500 fee to cover legal and document fees which will be capitalized as an asset on the balance sheet as “Debt issue costs” and will be amortized over the remaining term of the note. Simultaneously, Gemini will convert \$550,000 of principal convertible debt and additional 2014 interest on such principal debt into 3,727,778 shares of common stock of the Company at the contracted conversion price of \$0.15 per share. The conversion will be recorded to equity with no gain or loss on such conversion related to the principal portion and the Company will record a loss of \$1,222 related to the conversion of accrued interest. As an inducement to Gemini to convert the principal debt amount, the Company agreed to issue 3,727,778 common stock purchase warrants, each with a strike price of \$0.20 and a three year term. These warrants will be valued at \$482,300 using the Black-Scholes valuation methodology and will be expensed at the date of the transaction. Further, the Company issued 973,278 shares of common stock in settlement of the 2013 accrued interest on the Gemini notes. The Company will record a \$19,462 loss on conversion related to this piece of the transaction.

On March 28, 2014, the Company entered into a new consulting agreement with GreenCore Capital, LLC (“GreenCore”) and effectively cancelled all prior agreements between the companies. GreenCore will continue to provide financial advisory and analytical professional services to the Company as well as acting as a sales channel for Envision products. Related to the professional services provided, GreenCore will receive a payment amounting to \$30,000 and the issuance of 260,000 shares of the Company’s common stock (valued at \$39,000 based on contemporaneous sales of equity securities) payable upon the execution of this agreement. These payments will be expensed as incurred. Further, in months in which the Company requests the professional services, GreenCore will receive a monthly payment of \$9,000 in cash and the equivalent of \$9,000 of the Company’s common stock, as defined by a contract formula. Related to the services for which GreenCore is acting as a sales channel for Envision, the Company will pay a cash fee between 1-5% of gross revenue receipts received by the Company, dependent upon the involvement of Consultant in such sale, as defined. Jay Potter, our director, is the managing member of GreenCore and the individual performing the services.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A (T). CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management is responsible for establishing and maintaining disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934 (the “Exchange Act”) is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission (the “SEC”), and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure based closely on the definition of “disclosure controls and procedures” in Rule 15d-15(e) under the Exchange Act. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

At the end of the period covered by this Annual Report, we conducted an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2013, the disclosure controls and procedures of our Company were not effective to ensure that the information required to be disclosed in our Exchange Act reports was recorded, processed, summarized and reported on a timely basis.

The Company is undertaking to improve its internal control over financial reporting and improve its disclosure controls and procedures. As of December 31, 2012, we had identified the following material weaknesses which still existed as of December 31, 2013 and through the date of this report:

As of December 31, 2012 and 2013 and as of the date of this report, we did not maintain effective controls over the control environment. Specifically, the Board of Directors does not currently have a director who qualifies as an audit

committee financial expert as defined in Item 407(d)(5)(ii) of Regulation S-K. Also, because of the size of the Company's administrative staff, controls related to the segregation of certain duties have not been developed and the Company has not been able to adhere to them. Furthermore, we have not formally adopted a written code of business conduct and ethics that governs the Company's employees, officers and directors. Since these entity level programs have a pervasive effect across the organization, management has determined that these circumstances constitute a material weakness and therefore affects disclosure controls and procedures.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). The design of any system of controls 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, regardless of how remote. All internal control systems, no matter how well designed, have inherent limitations. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

We carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our internal controls over financial reporting as of December 31, 2013. Based on this assessment, management believes that, as of December 31, 2013, we did not maintain effective controls over the financial reporting control environment. Specifically, the Board of Directors does not currently have a director who qualifies as an audit committee financial expert as defined in Item 407(d)(5)(ii) of Regulation S-K. Further, because of the limited size of its administrative support staff, and due to the financial constraints on the Company, management has not been able to develop or implement controls related to the segregation of duties for purposes of financial reporting, nor have certain IT controls been developed and adhered to.

Because of these material weaknesses, management has concluded that we did not maintain effective internal control over financial reporting as of December 31, 2013, based on the criteria established in the “Internal Integrated Framework” issued by COSO.

No Attestation Report by Independent Registered Accountant

The effectiveness of our internal control over financial reporting as of December 31, 2013 has not been audited by our independent registered public accounting firm by virtue of our exemption from such requirement as a smaller reporting company.

Changes in Internal Controls over Financial Reporting

There were no changes in internal controls over financial reporting that occurred during the period covered by this report, which have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Corrective Action

Our Board of Directors is seeking a candidate with audit committee financial expertise to serve as an independent director of the Company and as the Chairman of our audit committee. Management plans to make future investments in the continuing education of our accounting and financial staff. Specifically, we plan to seek specific public company accounting training. Improvements in our disclosure controls and procedures and in our internal control over financial reporting will, however, depend on our ability to add additional resources and independent directors to provide more internal checks and balances, and to provide qualified independence for our anticipated audit committee. We believe we will be able to commence achieving these goals once our sales and cash flow grow and our financial

condition improves.

ITEM 9B. OTHER INFORMATION

None.

PART III**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The names of all current executive officers and members of the Board of Directors and certain information regarding them are set forth in this section of the annual report. Our directors hold office until the earlier of their death, resignation, removal by stockholders, or until their successors have been qualified. Our officers are selected by, and serve at the pleasure of, our Board of Directors.

The following table sets forth information regarding our executive officers and directors as of March 28, 2014:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Desmond Wheatley	48	Chief Executive Officer, President and Director
Chris Caulson	45	Chief Financial Officer
Robert Noble	61	Chairman of the Board of Directors
Jay Potter	49	Director
John Evey	64	Director
Paul Feller	49	Director

Biographies of Directors and Officers

DESMOND WHEATLEY has served as our President and Chief Operating Officer since September 2010 and was named Chief Executive Officer and a Director in August 2011. Mr. Wheatley has two decades of senior international management experience in technology systems integration, energy management, communications and renewable energy. Prior to joining Envision Solar, Mr. Wheatley was a founding partner in the international consulting practice Crichton Hill LLC in 2009 and chief executive officer of iAxis FZ LLC, a Dubai based alternative energy and technology systems integration company from 2007 to 2009. From 2000 to 2007, Mr. Wheatley held a variety of senior management positions at San Diego based Kratos Defense and Security Solutions, fka Wireless Facilities with the last five years as president of ENS, the largest independent security and energy management systems integrator in the United States. Prior to forming ENS in 2002, Mr. Wheatley held senior management positions in the cellular and

broadband wireless industries; deploying infrastructure and lobbying in Washington DC on behalf of major wireless service providers. Mr. Wheatley's teams led turnkey deployments of thousands of cellular sites and designed and deployed broadband wireless networks in many MTAs across the United States. Mr. Wheatley has founded, funded, and operated four profitable start-up companies and was previously engaged in merger and acquisition activities. Mr. Wheatley evaluated acquisition opportunities, conducted due diligence and raised commitments of \$500M in debt and equity. Mr. Wheatley sits on the boards of Admonsters, San Francisco California and the Human Capital Group, Los Angeles, California and was formerly a board member at DNI in Dallas, Texas.

Mr. Wheatley's qualifications are:

Leadership experience – Mr. Wheatley has been our Chief Executive Officer since August 2011 and President since September 2010. He has held numerous executive positions in international organizations including five years as president of a publically traded technology and energy management company.

Industry experience – Mr. Wheatley was the founding member of an international consulting company with expertise in the renewable and energy sectors. He has held various executive level positions in multiple infrastructure deployment companies and has been involved in energy management and renewables since 2002.

Finance Experience – Mr. Wheatley was founding partner in multiple companies with direct responsibilities for their financial success and stability. He has participated in \$500 million of capital raises and held full profit and loss responsibility for a public company with approximately \$70 million of revenues.

Education experience – Mr. Wheatley was educated in his native Scotland.

CHRIS CAULSON has been our Chief Financial Officer since August 2011 and previously led our accounting and finance functions since June 2010. Mr. Caulson brings over 22 years of financial management experience including security infrastructure and technology integration, wireless communications, and telecommunications industries. From 2004 into 2009, Mr. Caulson held various positions including Vice President of Operations and Finance of ENS, the largest independent technology systems integrator in the United States and a wholly-owned division of Kratos Defense & Security Solutions, Inc. In this role, Mr. Caulson was responsible for the operational and financial execution of multiple subsidiaries and well over \$100 million of integration projects including networks for security, voice and data, video, life safety and other integrated applications. Prior to 2004, Mr. Caulson was chief financial officer of Titan Wireless, Inc., a \$200 million international telecommunications division of Titan Corp (subsequently purchased by L-3.). Mr. Caulson, who has a Bachelors of Accountancy from the University of San Diego, began his career with the public accounting firm Arthur Andersen.

Mr. Caulson's qualifications:

Leadership experience – Mr. Caulson has been our Chief Financial Officer since August 2011 and has held similar positions in multiple other companies.

Finance experience – Mr. Caulson has over 22 years experience in financial related positions and was an external auditor in the public accounting firm of Arthur Andersen.

Industry experience – Mr. Caulson has held multiple financial related executive positions in publically traded companies.

Education experience – Mr. Caulson has his bachelors of accountancy degree from the University of San Diego.

ROBERT NOBLE has served as Chairman of the Board of Directors since 2006 and was our prior Chief Executive Officer and Chief Financial Officer, resigning both positions in August 2011. Prior to founding Envision, Mr. Noble served as the Chief Executive Officer of Tucker Sandler Architects, an architecture firm located in San Diego, California, from 2000 through 2007. Since its inception in 1998 through today, Mr. Noble has served as the chief executive officer of Noble Environmental Technologies, Inc., a materials company. He further served as chief executive officer of Ecoinvestment Network, a California company, since 2007, Envision Regenerative Health, a California company, since 2008, Noble Environmental Europe, AG, a Swiss company, and the Noble Group, Inc., a California company, since 2007. Mr. Noble is an accomplished architect, environmental designer, industrial designer and environmental technology entrepreneur. Mr. Noble and his work have won numerous awards, including awards from Popular Science Magazine (Best of What's New), Entrepreneur Magazine (Innovator of the Year, Environmental Category), National Public Radio (E-chievement Environmental Award), the Urban Land Institute (San Diego Smart Growth Award, Innovation Category) and The American Institute of Architects - San Diego Chapter (Energy Efficiency Award). He received his undergraduate degree in architecture from the University of California - Berkeley, and his Master of Architecture from Harvard University Graduate School of Design. Mr. Noble also completed graduate work at Cambridge University and Harvard Business School.

Mr. Noble's qualifications:

Leadership experience – Mr. Noble has been our chairman and through August 2011 was chief executive officer since inception and has held similar positions in multiple other companies.

Finance experience – Mr. Noble founded the Company and was our chief executive officer of until August 2011, as well as other companies, supervising the financial management of such as a part of his responsibilities.

Industry experience – Mr. Noble is an accomplished and award winning architect and has served as a community leader in the eco-friendly space. He is an international speaker on the subject.

Education experience – Mr. Noble received his undergraduate degree in architecture from the University of California -- Berkeley, and a Master of Architecture from Harvard University Graduate School of Design. Mr. Noble also completed graduate work at Cambridge University and Harvard Business School.

JAY POTTER has served as a Director of the Company since 2007. Mr. Potter has been active in the financial and energy industries for over 20 years and has participated, directed or placed over two hundred million dollars of capital in start-up and early stage companies. In 2006, Mr. Potter served as the interim Chief Executive Officer of EAU Technologies Inc. (Symbol: EAUI:OB), a publicly traded company specializing in non-toxic sanitation and disinfectant technologies. In 2007, he founded an early stage venture fund in GreenCore Capital, Inc. and serves as that company's Chairman and Chief Executive Officer. He has served as Chairman, President and Chief Executive Officer of Nexcore Capital, Inc. and its financial service affiliates since co-founding the company in 1996. Prior to December 2012, he was a registered representative with Allied Beacon Partners, Inc., a registered securities broker dealer firm that has served as the placement agent on certain of the Company's private placements of securities. Effective December 2012, without admitting or denying the findings, Mr. Potter entered into a Letter of Acceptance, Waiver and Consent with the Financial Industry Regulatory Authority (FINRA) to settle alleged violations of FINRA Rules 2010, 1122, IM-1000 and Article V, Section 2(c) of the Bylaws that impose certain reporting obligations on FINRA members, resulting in a fine and temporary suspension. Mr. Potter serves as the Chairman of Sterling Energy Resources, Inc. (symbol: SGER:PK), a public oil and gas company involved in the acquisition, exploration and development of oil and natural gas from its numerous leases. Mr. Potter serves as a Director of Envision, Noble Environmental Europe, AG, and Noble Environmental Technologies, and Fulcrum Enterprises among others.

Mr. Potter's qualifications are:

- Leadership experience – Mr. Potter has held various executive positions at multiple companies and is a Board member of Envision, Noble Environmental Europe, AG, and Noble Environmental Technologies, Inc.

- Industry experience – Mr. Potter has held numerous executive level positions for companies focusing on renewable energies and other environmentally focused ventures.

- Finance Experience – Mr. Potter raised and placed over \$200 million of capital into early stage companies.

- Education experience – Mr. Potter attended San Diego State University.

JOHN EVEY has served as a Director of the Company since April 2010. Since 2012, Mr. Evey has provided independent strategic assistance to corporations with a special focus on companies in the life science and clean technology sectors that can do well financially while also producing substantial social benefit. Prior to this, from 2011 to 2012, Mr. Evey was Executive Vice President of Nature and Culture International, an organization that has directly catalyzed the protection of more than ten million acres of large tropical forest ecosystems. Prior to accepting that role, Mr. Evey served for four years as Vice President for Development at the J. Craig Venter Institute ("JCVI"), for which he was responsible for generating collaborative partnerships and financial resources from all sources except federal research agencies for this major institute that is advancing genomic research to benefit human health and the environment. Beginning in 2002, Mr. Evey served as Assistant Director of the Scripps Institution of Oceanography and Executive Director of Development for the Marine Sciences at University of California, San Diego ("UCSD"). Prior to that, he was Vice President for Institutional Advancement at University of the Pacific after having served for more than a decade as Director of Development at Oregon State University. His earliest professional experience includes roles as founding director of the Office for Resource Development at the Oregon Shakespeare Festival and as the initial association executive for the statewide arts lobby, Oregon Advocates for the Arts. As a volunteer, he catalyzed creation of the Southern Oregon Land Conservancy. As an officer of the Travel Industry Council of Oregon, Mr. Evey and two colleagues successfully advocated the creation and funding of a Tourism Division in the Oregon Department of Economic Development. Mr. Evey is a member of the Host Committee for the Kyoto Prize Symposium in San Diego, which features the Kyoto Prize laureates each spring.

Mr. Evey's qualifications are:

Leadership experience – Mr. Evey has held multiple executive positions, including as Vice President for Advancement for the three-campus University of the Pacific.

Industry experience – Mr. Evey has served as Director of Development for Oregon State University, a Carnegie Tier I research university with statewide services.

Finance Experience – Mr. Evey has personally generated over \$100 million in gifts and matching funds to charitable organizations.

Education experience – Mr. Evey has a B.S. from Oregon State University and an M.S. from the University of Oregon as well as many professional development courses and seminars.

PAUL FELLER has served as a Director of the Company since January 2014. Mr. Feller has been involved with the management of live entertainment events for over 18 years. Since August 2012, Mr. Feller has been an independent consultant to various companies. From 2008 to 2012, he was the Chairman of the Board of Directors, president, and chief executive officer of Stratus Media Group, Inc., a global live entertainment company that owned and operated such premier events as the Mille Miglia, Perugia International Film Festival, Elite XC MMA, and Concours d' Elegance. Mr. Feller was the Chairman of Pro Elite, Inc. from 2010 to 2012. In 2001, Mr. Feller founded Pro Sports & Entertainment. During 1999, he served as the mergers and acquisitions officer of SFX Entertainment, Inc. a global live entertainment company acquired by Clear Channel Communications. From 1998 to 1999, he served as the chief operating officer with PSI/API International; a live entertainment business, which operated, sports events in Asia, Europe and North America. Mr. Feller had responsibility for developing global markets in China, Europe, and the United States. He negotiated agency rights and television broadcast agreements with such properties as the America's Cup syndicate, Association of Volleyball Professionals Tour, Disney's Pigskin Classic, NCAA's Freedom Bowl, Andretti Indy Racing Team, Long Beach Marathon, Toshiba Senior PGA, Formula 1, FIFA World Cup Soccer, Wimbledon, Pro Elite/Elite XC MMA, and both the Vancouver Open and ATP Shanghai Open Tennis Tournaments. As head of PSI's Asia division, Mr. Feller managed a \$135 million revenue operation and expanded it to a \$300 million valuation, and developed agreements with STAR Television and China's CCTV and operated the first international professional soccer tournament in China bringing in AC Milan, Juventus and Manchester United to Asia. He has been a member of the Los Angeles Sports Council, Orange County Sports Association, Asia International Business and Entertainment Association, US Professional Cycling Association, and the UK Professional Cycling Association. Mr. Feller was knighted in 2011 by the Swedish monarchy. He attended Purdue University earning credits toward a bachelor's degree in Mechanical Engineering with an Aerospace emphasis and currently is attending Lincoln/Northwestern Law School earning credits toward a Juris Doctor.

Mr. Feller's qualifications are:

Leadership experience – Mr. Feller has held various senior executive positions with multiple companies and has sat on various boards of directors.

Industry experience – Mr. Feller has held executive level positions for companies focusing on media and media placement.

Finance Experience – Mr. Feller has been involved in significant capital raises, and has managed multiple mergers and acquisitions creating positive, increased valuations through the process and management of the entities.

Education experience – Mr. Feller attended Purdue University

There are no family relationships among any of our directors and executive officers.

Limitation of Liability and Indemnification of Officers and Directors

Under Nevada General Corporation Law and our articles of incorporation, our directors will have no personal liability to us or our stockholders for monetary damages incurred as the result of the breach or alleged breach by a director of his "duty of care." This provision does not apply to the directors' (i) acts or omissions that involve intentional misconduct or a knowing and culpable violation of law, (ii) acts or omissions that a director believes to be contrary to

the best interests of the corporation or its shareholders or that involve the absence of good faith on the part of the director, (iii) approval of any transaction from which a director derives an improper personal benefit, (iv) acts or omissions that show a reckless disregard for the director's duty to the corporation or its shareholders in circumstances in which the director was aware, or should have been aware, in the ordinary course of performing a director's duties, of a risk of serious injury to the corporation or its shareholders, (v) acts or omissions that constituted an unexcused pattern of inattention that amounts to an abdication of the director's duty to the corporation or its shareholders, or (vi) approval of an unlawful dividend, distribution, stock repurchase or redemption. This provision would generally absolve directors of personal liability for negligence in the performance of duties, including gross negligence.

The effect of this provision in our articles of incorporation is to eliminate the rights of Envision and our stockholders (through stockholder's derivative suits on behalf of Envision) to recover monetary damages against a director for breach of his fiduciary duty of care as a director (including breaches resulting from negligent or grossly negligent behavior) except in the situations described in clauses (i) through (vi) above. This provision does not limit nor eliminate the rights of Envision or any stockholder to seek non-monetary relief such as an injunction or rescission in the event of a breach of a director's duty of care. In addition, our Articles of Incorporation provide that if Nevada law is amended to authorize the future elimination or limitation of the liability of a director, then the liability of the directors will be eliminated or limited to the fullest extent permitted by the law, as amended. Nevada General Corporation Law grants corporations the right to indemnify their directors, officers, employees and agents in accordance with applicable law. Our bylaws provide for indemnification of such persons to the full extent allowable under applicable law. These provisions will not alter the liability of the directors under federal securities laws.

We intend to enter into agreements to indemnify our directors and officers, in addition to the indemnification provided for in our bylaws. These agreements, among other things, indemnify our directors and officers for certain expenses (including attorneys' fees), judgments, fines, and settlement amounts incurred by any such person in any action or proceeding, including any action by or in the right of Envision, arising out of such person's services as a director or officer of Envision, any subsidiary of Envision or any other company or enterprise to which the person provides services at the request of Envision. We believe that these provisions and agreements are necessary to attract and retain qualified directors and officers.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling Envision pursuant to the foregoing provisions, Envision has been informed that in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

Board Committees

We intend to establish an audit committee of the Board of Directors, which will consist of independent directors of which at least one will qualify as a qualified financial expert as defined in Item 407(d)(5)(ii) of Regulation S-K. The audit committee's duties will be to recommend to our Board of Directors the engagement of independent auditors to audit our consolidated financial statements and to review our accounting and auditing principles. The audit committee will review the scope, timing and fees for the annual audit and the results of audit examinations performed by the internal auditors and independent public accountants, including their recommendations to improve the system of accounting and internal controls. The audit committee would at all times be composed exclusively of directors who are, in the opinion of our Board of Directors, free from any relationship that would interfere with the exercise of independent judgment as a committee member and who possess an understanding of consolidated financial statements and generally accepted accounting principles.

Compensation Committee

We currently have a compensation committee of the Board of Directors made up of two of our independent directors. The compensation committee reviews and approves our salary and benefits policies, including compensation of executive officers.

Code of Ethics

We intend to adopt a code of ethics that applies to our officers, directors and employees, including our Chief Executive Officer and Chief Financial Officer, but have not done so to date due to our relatively small size.

Compliance with Section 16(A) of Exchange Act

Section 16(a) of the Exchange Act requires our officers and directors, and certain persons who own more than 10% of a registered class of our equity securities (collectively, "Reporting Persons"), to file reports of ownership and changes in ownership ("Section 16 Reports") with the Securities and Exchange Commission. Reporting Persons are required by the SEC to furnish us with copies of all Section 16 Reports they file.

Based solely on our review of the copies of such Section 16 Reports received by us, or written representations received from certain Reporting Persons, all Section 16(a) filing requirements applicable to our Reporting Persons during and with respect to the fiscal year ended December 31, 2013 have been complied with on a timely basis except for Keshif Ventures, LLC.

ITEM 11. EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

The following Compensation Discussion and Analysis describes the material elements of compensation for our executive officers identified in the Summary Compensation Table (“Named Executive Officers”), and executive officers that we may hire in the future. As more fully described below, our Board’s compensation committee reviews and recommends policies, practices, and procedures relating to the total direct compensation of our executive officers, including the Named Executive Officers, and the establishment and administration of certain of our employee benefit plans to our Board of Directors.

Compensation Program Objectives and Rewards

Our compensation philosophy is based on the premise of attracting, retaining, and motivating exceptional leaders, setting high goals, working toward the common objectives of meeting the expectations of customers and stockholders, and rewarding outstanding performance. Following this philosophy, we consider all relevant factors in determining executive compensation, including the competition for talent, our desire to link pay with performance, the use of equity to align executive interests with those of our stockholders, individual contributions, teamwork, and each executive’s total compensation package. We strive to accomplish these objectives by compensating all executives with compensation packages consisting of a combination of competitive base salary and incentive compensation.

The compensation received by our Named Executive Officers is based primarily on the levels at which we can afford to retain them and their responsibilities and individual contributions. Our compensation policy also reflects our strategy of minimizing general and administration expenses and utilizing independent professional consultants. To date, we have not applied a formal compensation program to determine the compensation of the Named Executive Officers. In the future, our compensation committee and Board of Directors expect to apply the compensation philosophy and policies described in this section of our annual report.

The primary purpose of the compensation and benefits we consider is to attract, retain, and motivate highly talented individuals who will engage in the behavior necessary to enable us to succeed in our mission, while upholding our values in a highly competitive marketplace. Different elements are designed to engender different behaviors, and the actual incentive amounts which may be awarded to each Named Executive Officer are subject to the annual review of our compensation committee who will make recommendations regarding compensation to our Board of Directors. The following is a brief description of the key elements of our planned executive compensation structure.

Base salary and benefits are designed to attract and retain employees over time.

- Incentive compensation awards are designed to focus employees on the business objectives for a particular year. Equity incentive awards, such as stock options and non-vested stock, focus executives' efforts on the behaviors within the recipients' control that they believe are designed to ensure our long-term success as reflected in increases to our stock prices over a period of several years, growth in our profitability and other elements.
- Severance and change in control plans are designed to facilitate a company's ability to attract and retain executives as we compete for talented employees in a marketplace where such protections are commonly offered.

Benchmarking

We have not yet adopted benchmarking but may do so in the future. When making compensation decisions, our compensation committee and Board of Directors may compare each element of compensation paid to our Named Executive Officers against a report showing comparable compensation metrics from a group that includes both publicly-traded and privately-held companies. Our Board believes that while such peer group benchmarks are a point of reference for measurement, they are not necessarily a determining factor in setting executive compensation. Each executive officer's compensation relative to the benchmark varies based on the scope of responsibility and time in the position. We have not yet formally established our peer group for this purpose.

The Elements of Envision's Compensation Program

Base Salary

Executive officer base salaries are based on job responsibilities and individual contribution. Our compensation committee or Board of Directors review the base salaries of our executive officers, including our Named Executive Officers, considering factors such as corporate progress toward achieving objectives (without reference to any specific performance-related targets) and individual performance experience and expertise. Additional factors reviewed by our compensation committee and Board of Directors in determining appropriate base salary levels and raises include subjective factors related to corporate and individual performance. For the year ended December 31, 2013, all executive officer base salary decisions were approved by the Board of Directors.

Incentive Compensation Awards

The Named Executives have not been paid bonuses and our compensation committee has not yet recommended a formal compensation policy for the determination of bonuses. If our revenue grows and bonuses become affordable and justifiable, we expect to use the following parameters in justifying and quantifying bonuses for our Named Executive Officers and other officers of Envision: (1) the growth in our revenue, (2) the growth in our gross profit (3) the growth in our earnings before interest, taxes, depreciation and amortization, as adjusted ("EBITDA"), (4) achievement of other corporate goals as outlined by the Board and (5) our stock price. The Board has not adopted specific performance goals and target bonus amounts, but may do so in the future.

Equity Incentive Awards

In order to provide an incentive to attract and retain directors, officers, and other employees whose services are considered valuable, to encourage a sense of proprietorship and to stimulate an active interest of such persons in our development and financial success, on August 10, 2011, the Board approved and caused the Company to adopt, a new equity incentive plan (the "2011 Plan"), pursuant to which 30,000,000 shares of our common stock are reserved for issuance as awards to employees, directors, consultants and other service providers. This 2011 Plan was ratified by our shareholders as a part of the 2012 annual shareholders meeting.

From January 1, 2013 through December 31, 2013, the Company granted 600,000 stock options under the 2011 Plan with a total valuation of \$80,152 to the members of the Board of Directors. From January 1, 2013 through December 31, 2013, the Company granted 400,000 stock options under the 2011 Plan with a total valuation of \$84,783 to non

executive employees and contractors of the Company.

Additionally, although there were no new awards under the 2008 Plan granted during 2013, there are prior awards outstanding under the 2008 Plan to former officers and advisors.

Benefits and Prerequisites

At this stage of our business we have limited benefits and no prerequisites for our employees other than vacation benefits. We do not have a 401(k) Plan or any other retirement plan for our Named Executive Officers. We may adopt these plans and confer other fringe benefits for our executive officers in the future if our business grows sufficiently to enable us to afford them.

Separation and Change in Control Arrangements

On August 10, 2011, the Company entered into employment agreements with its Chief Executive Officer and its Chief Financial Officer. The term of the agreements is through January 1, 2016. The agreements call for a payment to the executive employee equal to one year of salary plus 100% of his bonus potential if the executive is terminated for reasons other than mutual agreement, executive's death, executive's breach, or upon disability of the executive, as defined. If the executive is terminated as a result of a change of control, as defined, then the executive would receive a payment equal to two years of annual compensation and 100% of his bonus potential for such two year period.

There were no other employment agreements outstanding as of December 31, 2013.

Executive Officer Compensation**Summary Compensation Table**

The following Summary Compensation Table sets forth, for the years indicated, all cash compensation paid, distributed or accrued for services rendered in all capacities by our Chief Executive Officer and all other compensated executive officers, as determined by reference to total compensation for the fiscal year ended December 31, 2013 and 2012, who were serving as executive officers at the end of the 2013 and former executive officers, who received or are entitled to receive remuneration in excess of \$100,000 during the stated periods.

Name and principal position	Year	Salary (\$)	Deferred Comp (\$)	Bonus (\$)	Stock awards (\$)	Option Awards (\$)	All other Compensation (\$)	Total (\$)
Desmond Wheatley (1) President and Chief	2013	200,000	–	–	–	–	–	200,000
	2012	200,000	–	–	–	–	–	200,000
Chris Caulson (2) Chief Financial Officer	2013	165,000	–	–	–	–	–	165,000
	2012	165,000	–	–	–	–	–	165,000

(1) Mr. Wheatley joined the Company full time in December 2010 at which time he was appointed President. On August 10, 2011, Mr. Wheatley was appointed Chief Executive Officer of the Company.

(2) Mr. Caulson joined the Company full time in November 2010. On August 10, 2011, Mr. Caulson was appointed Chief Financial Officer of the Company.

Agreements with Executive OfficersDesmond Wheatley

On August 10, 2011, the Board of Directors appointed Desmond Wheatley (then the Company's President and Chief Operating Officer) as its new Chief Executive Officer, President, and Corporate Secretary and approved and entered into an employment agreement with him, effective on August 10, 2011. This agreement calls for an annual salary of \$200,000. Further, Mr. Wheatley was granted 4,320,000 stock options pursuant to our 2011 Plan with an exercise price of \$0.27 per share exercisable for a period of ten (10) years from the date of grant. One third of these options vested immediately, one third vested on November 1, 2011 and one third vested on November 1, 2012. The term of

the employment agreement ends on January 1, 2016.

Chris Caulson

On August 10, 2011, the Company appointed Chris Caulson as its new Chief Financial Officer and approved and entered into an employment agreement with him, effective on August 10, 2011. This agreement calls for an annual salary of \$165,000. Further, Mr. Caulson was granted 2,700,000 stock options pursuant to our 2011 Plan with an exercise price of \$0.27 per share exercisable for a period of ten (10) years from the date of grant. One third of these options vested immediately, one third vested on November 1, 2011 and one third vested on November 1, 2012. The term of the employment agreement ends on January 1, 2016.

Outstanding Equity Awards at Fiscal Year End

The following table summarizes the total outstanding incentive equity awards as of December 31, 2013, for each named executive officer:

Name	Number of securities underlying unexercised options - number exercisable	Number of securities underlying unexercised options - unexercisable	Option exercise price (\$)	Option expiration date
Desmond Wheatley	4,320,000(1)	–	\$ 0.27	August 9, 2021
Chris Caulson	2,700,000(2)	–	\$ 0.27	August 9, 2021

On August 10, 2011, Mr. Wheatley received 4,320,000 stock options pursuant to our 2011 Plan with an exercise (1) price of \$0.27 per share exercisable for a period of ten (10) years from the date of grant. One third of these options vested immediately, one third vested on November 1, 2011 and one third vested on November 1, 2012.

On August 10, 2011, Mr. Caulson was granted 2,700,000 stock options pursuant to our 2011 Plan with an exercise (2) price of \$0.27 per share exercisable for a period of ten (10) years from the date of grant. One third of these options vested immediately, one third vested on November 1, 2011 and one third vested on November 1, 2012.

Option Exercises and Stock Vested

None of our executive officers exercised any stock options or acquired stock through vesting of an equity award during the fiscal year ended December 31, 2013.

Director Compensation

The following table sets forth all compensation paid, distributed, or accrued for services rendered in the capacities of non executive Board members.

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<u>Name</u>	<u>Fees earned or cash paid</u>	<u>Year</u>	<u>Option Awards (\$)(1)</u>	<u>All other compensation</u>	<u>Total (\$)</u>
Robert Noble	0	2013	22,993(2)	0	22,993
	0	2012	28,916(3)	0	28,916
Jay Potter	0	2013	28,579(4)	0	28,579
	0	2012	36,358(5)	0	36,358
John Evey	0	2013	28,579(6)	0	28,579
	0	2012	36,358(7)	0	36,358

(1) This represents the fair value of the award as of the grant date in accordance with FASB ASC Topic 718.

(2) On December 18, 2013, Mr. Noble received nonqualified stock options pursuant to our 2011 Plan to purchase up to 200,000 shares of our common stock at an exercise price of \$0.1815 per share exercisable for a period of five years from the date of grant in consideration for his services to us. These stock options vested on December 18, 2013.

(3) On January 1, 2012, Mr. Noble received nonqualified stock options pursuant to our 2011 Plan to purchase up to 200,000 shares of our common stock at an exercise price of \$0.253 per share exercisable for a period of five years from the date of grant in consideration for his services to us. These stock options vested throughout, 2012.

(4) On December 18, 2013, Mr. Potter received nonqualified stock options pursuant to our 2011 Plan to purchase up to 200,000 shares of our common stock at an exercise price of \$0.165 per share exercisable for a period of ten years from the date of grant in consideration for his services to us. These stock options vested on December 18, 2013.

(5) On January 1, 2012, Mr. Potter received nonqualified stock options pursuant to our 2011 Plan to purchase up to 200,000 shares of our common stock at an exercise price of \$0.23 per share exercisable for a period of five years from the date of grant in consideration for his services to us. These stock options vested throughout 2012.

(6) On December 18, 2013, Mr. Evey received nonqualified stock options pursuant to our 2011 Plan to purchase up to 200,000 shares of our common stock at an exercise price of \$0.165 per share exercisable for a period of ten years from the date of grant in consideration for his services to us. These stock options vested on December 18, 2013.

(7) On January 1, 2012, Mr. Evey received nonqualified stock options pursuant to our 2011 Plan to purchase up to 200,000 shares of our common stock at an exercise price of \$0.23 per share exercisable for a period of five years from the date of grant in consideration for his services to us. These stock options vested throughout 2012.

On January 23, 2014, Mr. Paul H. Feller accepted an appointment as a new director of the Company effective January 23, 2014. In consideration for Mr. Feller's acceptance to serve as a director of the Company, the Company granted 1,000,000 restricted shares of its common stock to him, subject to the terms and conditions set forth in the Restricted Stock Grant Agreement including but not limited to the following vesting schedule: 166,672 shares on January 24,

2014 and then 69,444 shares on the last day of each calendar quarter thereafter commencing on March 31, 2014. The total value of this stock grant is \$0.17 per share (based on market price at the time of the transaction) or \$170,000.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth certain information as of March 21, 2014 regarding the beneficial ownership of our common stock by (i) each person or entity who, to our knowledge, beneficially owns more than 5% of our common stock; (ii) each executive officer and named officer; (iii) each director; and (iv) all of our officers and directors as a group. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission. In computing the number of shares beneficially owned by a person and the percentage of ownership of that person, shares of common stock subject to options or warrants held by that person that are currently exercisable or become exercisable within 60 days of March 21, 2014 are deemed outstanding even if they have not actually been exercised. Those shares, however, are not deemed outstanding for the purpose of computing the percentage ownership of any other person. Unless otherwise indicated in the footnotes to the following table, each of the stockholders named in the table has sole voting and investment power with respect to the shares of our common stock beneficially owned. Except as otherwise indicated, the address of each of the stockholders listed below is: c/o 7675 Dagget Street, Suite 150, San Diego, California 92111.

Name of Beneficial Owner	Number of Shares Beneficially Owned (1)	Percentage Beneficially Owned (2)
Robert Noble	13,202,272 (3)	16.76%
Jay Potter	2,644,391 (4)	3.36%
John Evey	1,474,420 (5)	1.87%
Desmond Wheatley	2,880,000 (6)	3.66%
Chris Caulson	1,800,000 (7)	2.29%
Paul Feller	1,000,000 (8)	1.27%
Keshif Ventures, LLC	10,000,000 (9)	12.70%
Gerald Hickson	4,893,276 (10)	6.21%
All officers and directors as a group (5 persons)	23,001,083	29.21%

- Shares of common stock beneficially owned and the respective percentages of beneficial ownership of common stock assume the exercise by such person of all options, warrants and other securities convertible into common stock beneficially owned by such person or entity currently exercisable or exercisable within 60 days of March 21, 2014.
- (1) Based on 78,752,942 shares of our common stock outstanding as of March 21, 2014.
 - (2) Includes 11,587,440 shares of common stock, 476,712 shares of common stock issuable upon the exercise of options that are exercisable within 60 days of March 21, 2014, and 1,138,120 shares of common stock issuable upon the exercise of warrants that are exercisable within 60 days of March 21, 2014.
 - (3) Includes 791,167 shares of common stock, 676,712 shares of common stock issuable upon the exercise of options that are exercisable within 60 days of March 21, 2014, 576,512 shares of common stock issuable upon the exercise of warrants that are exercisable within 60 days of March 21, 2014, and 600,000 shares issuable upon the exercise of warrants held by Fulcrum Enterprises, Inc. that are exercisable within 60 days of March 21, 2014. Mr. Potter is the chairman and president of Fulcrum Enterprises, Inc.
 - (4)

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- Includes 183,261 shares of common stock, 676,712 shares of common stock issuable upon the exercise of options
- (5) that are exercisable within 60 days of March 21, 2014, and 614,447 shares of common stock issuable upon the conversion of balances owed through convertible note.
 - (6) Shares of common stock issuable upon exercise of options that are exercisable within 60 days of March 21, 2014.
 - (7) Shares of common stock issuable upon exercise of options that are exercisable within 60 days of March 21, 2014. Includes 1,000,000 shares issued for a three year service period as a director. Of these shares 166,672 shares
 - (8) vested on January 24, 2014 and then 69,444 shares will vest on the last day of each calendar quarter thereafter commencing on March 31, 2014.
 - (9) Includes 4,000,000 shares issuable in 2014 pursuant to the Company's private placement. The address for this holder is 4445 Eastgate Mall, San Diego, California 92121.
 - (10) The address for this holder is 403 Hazeltine Drive, Austin Texas 78734

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

On January 10, 2013, Envision entered into a consulting agreement with GreenCore Capital, LLC (“GreenCore”) pursuant to which GreenCore will provide professional services to the Company in addition to acting as a sales channel for the Company’s products. Jay Potter, our Director, is the managing member of GreenCore. The Company made payments totaling \$56,750 to GreenCore during 2013.

On March 28, 2014, the Company entered into a new consulting agreement with GreenCore and effectively cancelled all prior agreements between the companies. GreenCore will continue to provide financial advisory and analytical professional services to the Company as well as acting as a sales channel for Envision products. Related to the professional services provided, GreenCore will receive a payment amounting to \$30,000 and the issuance of 260,000 shares of the Company’s common stock payable upon the execution of this agreement. Further, in months in which the Company requests the professional services, a monthly payment of \$9,000 in cash and the equivalent of \$9,000 of the Company’s common stock, as defined. Related to the services for which GreenCore is acting as a sales channel for Envision, the Company will pay a cash fee between 1-5% of gross revenue receipts received by the Company dependent upon the involvement of Consultant in such sale, as defined.

In 2009, the Company executed a 10% convertible note payable in the amount of \$102,236 due December 31, 2010 to John Evey for amounts loaned to the Company. Mr. Evey joined the Board of Directors on April 27, 2010. Through a series of extensions, the note due date was extended to December 31, 2014. During the fiscal year ended December 31, 2013, in lieu of interest payments, the Company made principal payments on this note amounting to \$12,067. The balance of the note as of December 31, 2013 is \$110,616 with accrued and unpaid interest amounting to \$12,273.

On February 21, 2014, the Company entered into a consulting agreement (the “Consulting Agreement”) with Cronus Equity LLC, a Delaware limited liability company (“Cronus”), to be effective as of February 1, 2014, pursuant to which Cronus will provide professional services to the Company. Paul Feller, a director of Envision, is a managing partner of Cronus and the individual performing such professional services on behalf of Cronus. In consideration for providing these services to the Company, Cronus will receive a monthly fee amounting to \$10,000 unless such amount is otherwise jointly agreed by the parties. Cronus may also be asked to perform additional services as it relates to the raising of capital by the Company, and if so, will be compensated with additional consulting fees that will be mutually agreed to by the parties.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The Company's Board of Directors reviews and approves audit and permissible non-audit services performed by its independent registered public accounting firm, as well as the fees charged for such services. In its review of non-audit service and its appointment of Salberg & Company, P.A. as our independent registered public accounting firm, the Board considered whether the provision of such services is compatible with maintaining independence. All of the services provided and fees charged by Salberg & Company, P.A. in 2013 and 2012 were approved by the Board of Directors. The following table shows the fees for the years ended December 31, 2013 and 2012:

	2013	2012
Audit Fees (1)	\$56,200	\$55,600
Audit Related Fees (2)	\$0	\$0
Tax Fees (3)	\$0	\$0
All Other Fees	\$0	\$0

-
- (1) Audit fees – these fees relate to the audit of our annual consolidated financial statements and the review of our interim quarterly financial statements.
- (2) Audit related fees – no fees of this sort were billed by Salberg & Company P.A., our principal accountant during 2013 and 2012.
- (3) Tax fees – no fees of this sort were billed by Salberg & Company P.A., our principal accountant during 2013 and 2012.

Pre-Approval Policies and Procedures of Audit and Non-Audit Services of Independent Registered Public Accounting Firm

The Board of Director's policy is to pre-approve, typically at the beginning of our fiscal year, all audit and non-audit services, other than de minimis non-audit services, to be provided by an independent registered public accounting firm. These services may include, among others, audit services, audit-related services, tax services and other services and such services are generally subject to a specific budget. The independent registered public accounting firm and management are required to periodically report to the full Board of Directors regarding the extent of services provided by the independent registered public accounting firm in accordance with this pre-approval, and the fees for the services performed to date. As part of the Board's review, the Board will evaluate other known potential engagements of the independent auditor, including the scope of work proposed to be performed and the proposed fees, and approve or reject each service, taking into account whether the services are permissible under applicable law and the possible impact of each non-audit service on the independent auditor's independence from management. At audit committee meetings throughout the year, the auditor and management may present subsequent services for approval. Typically, these would be services such as due diligence for an acquisition, that would not have been known at the beginning of the year.

The Board of Directors has considered the provision of non-audit services provided by our independent registered public accounting firm to be compatible with maintaining their independence. The audit committee will continue to approve all audit and permissible non-audit services provided by our independent registered public accounting firm.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

The following consolidated financial statements are included in Item 8 of this report:

1. Financial Statements

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets at December 31, 2013 and December 31, 2012

Consolidated Statements of Operations for the Years Ended December 31, 2013 and 2012

Consolidated Statements of Changes in Stockholders' Deficit for the Years Ended December 31, 2013 and 2012

Consolidated Statements of Cash Flows for the Years Ended December 31, 2013 and 2012

Notes to Consolidated Financial Statements

2. Financial Statement Schedule

None

The following exhibits are included with this filing:

3. Exhibits

<u>Exhibit No.</u>	<u>Description</u>
2.1	Agreement of Merger and Plan of Reorganization, dated February 10, 2010, by and among Casita Enterprises, Inc., ESII Acquisition Corp. and Envision Solar International, Inc.(1)
3.1	Articles of Incorporation(2)
3.2	Bylaws (2)
10.1	2007 Unit Option Plan of Envision Solar, LLC, dated as of July 2007(1)
10.2	Asset Purchase Agreement, dated as of January, 2008, by and among Envision Solar International, Inc. and Generating Assets, LLC(1)
10.3	Warrant, dated as of January 11, 2008, issued to Squire, Sanders & Dempsey L.L.P.(1)
10.4	Securities Purchase Agreement, dated as of November 12, 2008, by and between Envision Solar International, Inc. and Gemini Master Fund, Ltd.(1)
10.5	Secured Bridge Note, dated November 12, 2008, issued to Gemini Master Fund, Ltd.(1)
10.6	Security Agreement, dated as of November 12, 2008, by and among Envision Solar International, Inc., Envision Solar Construction, Inc., Envision Solar Residential, Inc., Envision Africa, LLC, Gemini Master Fund, Ltd. and Gemini Strategies, LLC(1)
10.7	Intellectual Property Security Agreement, dated as of November 12, 2008, by and among Envision Solar International, Inc., Envision Solar Construction, Inc., Envision Solar Residential, Inc., Envision Africa, LLC Gemini Master Fund, Ltd. and Gemini Strategies, LLC(1)
10.8	Subsidiary Guarantee, dated as of November 12, 2008, by and among Envision Solar International, Inc., Envision Solar Construction, Inc., Envision Solar Residential, Inc., Envision Africa, LLC and Gemini Strategies, LLC(1)
10.9	Forbearance Agreement, dated as of April 11, 2009, by and among Envision Solar International, Inc., Envision Solar Construction, Inc., Envision Solar Residential, Inc., Envision Africa, LLC and Gemini Master Fund, Ltd.(1)
10.10	Subordination Agreement, dated as of October 1, 2009, by and among Envision Solar International, Inc., Envision Solar Construction, Inc., Envision Solar Residential, Inc., Envision Africa, LLC, Jon Evey, Gemini Master Fund, Ltd. and Gemini Strategies, LLC(1)
10.11	Amendment Agreement, dated as of October 30, 2009, by and among Envision Solar International, Inc., Envision Solar Construction, Inc., Envision Solar Residential, Inc., Envision Africa, LLC, Gemini Master Fund, Ltd. and Gemini Strategies, LLC(1)

- 10.12 Lock-up Agreement, dated as of October 30, 2009, by and between Envision Solar International, Inc. and Robert Noble(1)
- 10.13 Lease dated as of December 17, 2009 by and between Pegasus KM, LLC and Envision Solar International, Inc.(1)
- 10.14 10% Subordinated Convertible Promissory Note, dated December 17, 2009, issued to Mark Mandell, William Griffith and Pegasus Enterprises, LP(1)
- 10.15 Amended and Restated 10% Subordinated Convertible Promissory Note, dated as of December 31, 2010, issued to John Evey(1)
- 10.16 Agreement of Conveyance, Transfer and Assignment of Assets and Assumption of Obligations, dated as of February 10, 2010, by and between Casita Enterprises, Inc. and Casita Enterprises Holdings, Inc.(1)
- 10.17 Stock Purchase Agreement, dated February 10, 2010, by and between Casita Enterprises, Inc. and Jose Cisneros, Marco Martinez, Paco Sanchez, Don Miguel and Lydia Marcos(1)
- 10.18 Selling Agreement between Envision Solar International, Inc and Allied Beacon Partners, Inc.(3)
- 10.19 Letter of Intent with General Motors, LLC.(4)
- 10.20 Selling Agreement with Allied Beacon Partners, Inc., dated January 8, 2013(5)
- 10.21 Consulting Agreement with GreenCore Capital, LLC, dated January 10, 2013(5)
- 10.22 Teaming Agreement with Horizon Energy Group signed January 16, 2013(6)
- 10.23 Restricted Stock Agreement between the Company and Paul H. Feller, dated January 23, 2014(7)
- 10.24 Consulting Agreement with Cronus Equity LLC, dated February 21, 2014(8)
- 10.25 Fourth Extension and Amendment Agreement between Envision Solar International, Inc. and Gemini Master Fund Ltd and Gemini Strategies LLC dated as of February 28, 2014 with Exhibits
- 10.26 Consulting Agreement with GreenCore Capital, LLC, dated March 28, 2014
- 31.1 Section 302 Certification of Principal Executive Officer
- 31.2 Section 302 Certification of Principal Accounting Officer
- 32.1 Section 906 Certification of Principal Executive Officer
- 32.2 Section 906 Certification of Principal Accounting Officer

101.INS XBRL Instance Document

101.SCHXBRL Schema Document

101.CALXBRL Calculation Linkbase Document

101.DEF XBRL Definition Linkbase Document

101.LABXBRL Label Linkbase Document

101.PRE XBRL Presentation Linkbase Document

(1) Incorporated by reference to the Form 8K filed with the Securities and Exchange Commission, dated February 12, 2010.

(2) Incorporated by reference to the Form SB-2 Registration Statement filed with the Securities and Exchange Commission dated November 2, 2007.

(3) Incorporated by reference to the Form 8K filed with the Securities and Exchange Commission, dated September 9, 2011.

(4) Incorporated by reference to the Form 8K filed with the Securities and Exchange Commission, filed on March 28, 2012.

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- (5) Incorporated by reference to the Form 8K filed with the Securities and Exchange Commission, dated January 11, 2013.
- (6) Incorporated by reference to the Form 8K filed with the Securities and Exchange Commission, dated January 16, 2013.
- (7) Incorporated by reference to the Form 8K filed with the Securities and Exchange Commission, dated January 28, 2014.
- (8) Incorporated by reference to the Form 8K filed with the Securities and Exchange Commission, dated February 26, 2014.

SIGNATURES

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

Envision Solar International, Inc.

Dated: March 31, 2014 By: **/s/ Desmond Wheatley**
Desmond Wheatley, Chief Executive Officer and President
(Principal Executive Officer)

By: **/s/ Chris Caulson**
Chris Caulson, Chief Financial Officer
(Principal Financial Officer)

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

By: **/s/Robert Noble** **Dated: March 31, 2014**
Robert Noble, Chairman

By: **/s/Jay S. Potter** **Dated: March 31, 2014**
Jay S. Potter, Director

By: **/s/John Evey** **Dated: March 31, 2014**
John Evey, Director

By: **/s/Paul Feller** **Dated: March 31, 2014**
Paul Feller, Director