

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Amendment No 1 to  
FORM 10-Q**

**[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

for the quarterly period ended - June 30, 2013

OR

**[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

*COMMISSION FILE NUMBER 000-30392*

**ENVIRONMENTAL SOLUTIONS WORLDWIDE, INC.**

(Exact name of Company as specified in its charter)

Florida  
State or other jurisdiction of incorporation or organization

13-4172059  
(I.R.S. Employer Identification No.)

**200 PROGRESS DRIVE, MONTGOMERVILLE, PA, 18936**  
(Address of principal executive offices, including postal code.)

(905) 695-4142 and (215) 699-0730

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 [X] NO

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company [X]

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES [ ] NO [X]

There were 113,464 shares of the registrant's Common Stock outstanding as of August 19, 2013 (after giving effect to the one-for-two thousand reverse stock split effected on May 24, 2013).

## EXPLANATORY NOTE

Environmental Solutions Worldwide, Inc. (the "Company") is filing this Amendment No. 1 (this "Amendment No. 1") to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2013 (the "Form 10-Q"), which was originally filed with the Securities and Exchange Commission on August 19, 2013.

This Amendment No. 1 is being filed to correct an error in the reporting of Work-in-process in Note 6- Inventory on Page F11. Specifically, the Work-in-process for the period ended June 30, 2013 amounted to \$2,272,100, rather than \$2,502,102 (as originally disclosed in the Form 10-Q). The correction affects only the amount of Work-in-process in the table appearing on Note 6 – Inventory, on page F11 of this Amendment No. 1. This Amendment No. 1 also corrects a typographical error in the sentence appearing below the table in Note 6. In addition, this Amendment No. 1 furnishes Exhibit 101 to the Form 10-Q in accordance with Rule 405 of Regulation S-T. Exhibit 101 to this report provides the consolidated financial statements and related notes from the Form 10-Q (as amended) formatted in XBRL (eXtensible Business Reporting Language).

Except for the items mentioned above, this Amendment No. 1 does not amend the Company's previously filed Form 10-Q. This Amendment No. 1 speaks as of the original filing date of the Form 10-Q, does not reflect events that may have occurred subsequent to the original filing date, and (except as set forth above) does not modify or update in any way disclosures made in the original Form 10-Q. This Amendment No. 1 should be read in conjunction with the Company's filings made with the Securities and Exchange Commission subsequent to the filing of the previously filed Form 10-Q, including any amendments to those filings.

Pursuant to Rule 406T of Regulation S-T, the interactive data files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

The Company's Executive Chairman and Principal Financial Officer are providing currently dated certifications in connection with this Amendment on Form 10-Q/A; the certifications are filed as Exhibits 31.1, 31.2, 32.1 and 32.2.

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**ENVIRONMENTAL SOLUTIONS WORLDWIDE, INC.**  
**CONSOLIDATED CONDENSED BALANCE SHEETS**

	<b>JUNE 30, 2013</b>	<b>DECEMBER 31, 2012</b>
	<b>(Unaudited)</b>	
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents (Note 5)	\$2,550,537	\$ 253,998
Accounts receivable, net of allowance for doubtful accounts of \$221,212 (2012 - \$221,212) (Note 2)	1,045,694	1,322,320
Inventory, net of reserve of \$252,473 (2012 - \$252,473)(Note 6)	2,973,565	1,962,278
Prepaid expenses and sundry assets	385,949	133,438
Total current assets	6,955,745	3,672,034
Property, plant and equipment under construction (Note 7)	122,827	350,431
Property, plant and equipment, net of accumulated depreciation of \$3,074,679 (2012 - \$2,735,691) (Note 7)	1,602,043	1,382,653
Patents and trademarks, net of accumulated amortization of \$0 (Note 2 and 3)	42,000	-
	<b>\$8,722,615</b>	<b>\$5,405,118</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities		
Accounts payable (Note 15)	\$1,327,579	\$1,457,091
Accrued liabilities (Note 2)	679,431	344,288
Warranty provision (Note 2)	1,648,158	143,564
Customer deposits	90,810	73,078
Current portion of loan payable (Note 9)	69,966	68,926
Total current liabilities	3,815,944	2,086,947
Long-term liabilities		
Promissory notes payable (Note 10)	1,967,335	-
Conversion option derivative liability (Note 11)	4,117,424	-
Loan payable (Note 9)	368,963	404,207
Total long-term liabilities	6,453,722	404,207
Total liabilities	10,269,666	2,491,154
Commitments and Contingencies (Note 16)		
Stockholders' Equity (Notes 13 and 14)		
Common stock, \$0.001 par value, 250,000,000 shares authorized; 113,464 (2012 - 112,049) shares issued and outstanding	113	112
Additional paid-in capital	57,201,483	57,080,047
Accumulated other comprehensive income	344,183	344,183
Accumulated deficit	(59,092,830)	(54,510,378)
Total stockholders' equity	(1,547,051)	2,913,964
	<b>\$8,722,615</b>	<b>\$5,405,118</b>
Going concern ( Note 1)		
Subsequent events (Note 20)		

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

**ENVIRONMENTAL SOLUTIONS WORLDWIDE, INC.**  
**CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS**  
**AND COMPREHENSIVE LOSS**  
**FOR THE SIX AND THREE MONTH PERIOD ENDED JUNE 30,**  
**(UNAUDITED)**

	<b>SIX MONTHS PERIOD ENDED</b>		<b>THREE MONTHS PERIOD</b>	
	<b>JUNE 30,</b>		<b>ENDED JUNE 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Revenue	\$ 4,745,345	\$4,875,705	\$ 3,289,503	\$2,344,103
Cost of revenue (Note 2 and 7)	4,953,625	3,199,736	3,864,780	1,456,810
Gross (loss) profit	(208,280)	1,675,969	(575,277)	887,293
Operating expenses				
Marketing, office and general expenses	2,137,526	1,865,510	1,370,131	675,060
Officers' compensation and directors' fees (Note 15)	435,707	311,591	130,494	154,484
Research and development costs (Note 2 and 7)	240,611	314,318	158,871	185,770
Consulting and professional fees	279,499	135,613	212,382	79,629
Depreciation and amortization (Note 7)	112,578	115,117	57,458	38,935
Foreign exchange loss	11,180	43,043	3,068	11,612
Loss on impairment of property, plant and equipment, net (Note 7)	-	28,945	-	-
	3,217,101	2,814,137	1,932,404	1,145,490
Loss from operations	(3,425,381)	(1,138,168)	(2,507,681)	(258,197)
Gain on deconsolidation of subsidiary (Note 8)	-	453,900	-	-
Interest on promissory notes payable (Notes 10 and 15)	(72,311)	-	(68,811)	-
Amortization of discount on promissory notes payable (Note 10)	(46,437)	-	(44,381)	-
Change in fair value of conversion option derivative liability (Note 11)	(1,038,323)	-	(1,330,893)	-
Net loss and comprehensive loss	\$(4,582,452)	\$(684,268)	\$(3,951,766)	\$(258,197)
Net loss per share (basic and diluted) (Note 18)	\$(40.44)	\$ (6.24)	\$ (34.71)	\$ (2.35)
Weighted average number of shares outstanding (basic and diluted)	113,304	109,725	113,845	109,725

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

**ENVIRONMENTAL SOLUTIONS WORLDWIDE, INC.**  
**CONSOLIDATED CONDENSED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2013**  
**(UNAUDITED)**

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive	Accumulated	Total
	Shares	Amount		Income	Deficit	Stockholders' Equity
Balance, January 1, 2013	112,049	\$ 112	\$57,080,047	\$ 344,183	\$(54,510,378)	\$2,913,964
Net loss	-	-	-	-	(4,582,452)	(4,582,452)
Stock-based compensation (Note 13)	2,057	2	172,951	-	-	172,953
Repurchase of common stock (Note 2)	(642)	(1)	(51,515)	-	-	(51,516)
Balance June 30, 2013	<u>113,464</u>	<u>\$ 113</u>	<u>\$57,201,483</u>	<u>\$ 344,183</u>	<u>\$(59,092,830)</u>	<u>\$ (1,547,051)</u>

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

**ENVIRONMENTAL SOLUTIONS WORLDWIDE, INC.**  
**CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS**  
**FOR THE SIX MONTH PERIOD ENDED JUNE 30,**

	<b>2013</b>	<b>2012</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Net loss	\$ (4,582,452)	\$ (684,268)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation of property, plant and equipment	339,019	294,804
Loss on impairment of property, plant and equipment	-	42,674
Interest on promissory notes payable	72,311	-
Amortization of discount on promissory notes payable	46,437	-
Change in fair value of conversion option derivative liability	1,038,323	-
Stock-based compensation	172,953	41,417
Allowance for doubtful accounts	-	213,108
Warranty provision	1,504,900	-
Loss on write down of inventory	230,002	107,360
Gain on disposal of property and equipment	-	(13,729)
Gain on deconsolidation of subsidiary	-	(453,900)
	3,403,945	231,734
Decrease in cash flows from operating activities resulting from changes in:		
Accounts receivable	276,626	(547,312)
Inventory	(1,241,289)	121,008
Prepaid expenses and sundry assets	(252,511)	137,767
Accounts payable and accrued liabilities	133,014	(264,675)
Customer deposits	17,732	-
	(1,066,428)	(553,212)
Net cash used in operating activities	(2,244,935)	(1,005,746)
Investing activities:		
Proceeds from sale of property, plant and equipment	-	13,729
Acquisition of patent and trademarks	(42,000)	-
Acquisition of property, plant and equipment	(275,688)	(148,019)
Addition to property, plant and equipment under construction	(55,118)	(158,579)
Net cash used in investing activities	(372,806)	(292,869)
Financing activities:		
Proceeds from notes payable to related parties	5,000,000	-
Payment for fractional shares	(51,516)	-
Proceeds of loan payable	-	280,787
Repayment of loan payable	(34,204)	(6,024)
Repayment of capital lease obligation	-	(1,241)
Net cash provided by financing activities	4,914,280	273,522
Net change in cash and equivalents	2,296,539	(1,025,093)
Cash and cash equivalents, beginning of period	253,998	1,103,649
Cash and cash equivalents, end of period	\$ 2,550,537	\$ 78,556
Supplemental disclosures:		
Cash interest paid	\$ 6,884	\$ -
Property, plant and equipment included in accounts payable	\$ 80,234	\$ -

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

## **NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**

### **NOTE 1 - NATURE OF BUSINESS AND GOING CONCERN**

Environmental Solutions Worldwide, Inc. (the "Company" or "ESW") through its wholly-owned subsidiaries is engaged in the design, development, manufacturing and sales of emissions control technologies. ESW also provides emissions testing and environmental certification services with its primary focus on the North American on-road and off-road diesel engine, chassis and after-treatment market. ESW currently manufactures and markets a line of catalytic emission control and enabling technologies for a number of applications focused on the medium and heavy duty diesel ("MHDD") retrofit market.

The unaudited consolidated condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which contemplates continuation of the Company as a going concern. The Company has sustained recurring operating losses. As of June 30, 2013, the Company had an accumulated deficit of \$59,092,830 and has cash and cash equivalents of \$2,550,537. ESW's history of losses and the current prevailing economic conditions all create uncertainty in the operating results and, accordingly, there is no assurance that the Company will be successful in generating sufficient cash flow from operations or achieving profitability in the near future. As a result, there is substantial doubt regarding the Company's ability to continue as a going concern. The Company may require additional financing to fund its continuing operations and planned capital investments. The Company's ability to continue as a going concern is dependent on achieving and maintaining a profitable level of operations.

Effective March 22, 2013, the Company entered into a note subscription agreement, a security agreement and issued senior secured five (5) year convertible promissory notes (collectively the "Notes") to certain shareholders (the "Senior Secured Lenders"). Pursuant to the Loan Agreements, the Senior Secured Lenders made initial loans to the Company in the principal aggregate amount of \$1.4 million on March 22, 2013.

On April 23, 2013 and June 27, 2013, the Company issued additional Notes in the aggregate principal amount \$3,600,000 to the Senior Secured Lenders, which represented the last drawdown of the \$5 million loan facility. The additional Notes were issued on terms substantially similar to the terms set forth in the Notes previously issued on March 22, 2013. Proceeds from the additional Notes will be used by the Company and its subsidiaries to fund the acquisition of assets from Cleaire Advanced Emission Controls, LLC ("Cleaire"), working capital, planned capital investments and other general corporate purposes.

These unaudited consolidated condensed 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. All adjustments, consisting only of normal recurring items, considered necessary for fair presentation have been included in these unaudited consolidated condensed financial statements. These unaudited condensed consolidated interim financial statements have been prepared on the same basis as the annual financial statements and should be read in conjunction with those annual financial statements filed on Form 10-K for the year ended December 31, 2013.

### **NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES**

#### **BASIS OF CONSOLIDATION**

The unaudited consolidated condensed financial statements include the accounts of the Company and its wholly-owned subsidiaries, ESWA, ESW Technologies Inc. ("ESWT"), ESW Canada Inc. ("ESWC"), ESW CleanTech Inc ("ESWCT") and Technology Fabricators Inc. ("TFI"). All inter-company transactions and balances have been eliminated on consolidation. Amounts in the unaudited consolidated condensed financial statements are expressed in U.S. dollars.

On April 18, 2013, ESW formed ESWCT, a wholly owned subsidiary. ESWCT, a Delaware corporation, is the entity that houses ESW's San Diego manufacturing operations. ESWCT is located 7706 Trade Street, San Diego, CA, 92121.

#### **REVERSE STOCK-SPLIT**

On May 24, 2013, ESW affected a one-for-two thousand reverse stock split of its common stock. As a result all outstanding common stock, and per share amounts contained in the unaudited consolidated condensed financial statements and related notes have been retroactively adjusted to reflect this reverse stock-split for all periods presented. No fractional shares were issued resulting in a decrease to the outstanding shares on a post-split basis. In lieu of fractional shares, holders were paid cash equal to the number of shares of common stock held by any such holder immediately prior to the reverse stock split that were not combined into whole shares, multiplied by the fair market value of one pre-reverse stock split share. In lieu of issuing fractional shares, the Company paid holders cash in aggregate of \$51,516.



## **ESTIMATES**

The preparation of unaudited consolidated condensed financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the unaudited consolidated condensed financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates. Significant estimates include amounts for inventory valuation, elements of an asset acquisition as of the date of acquisition, impairment of and useful lives of property plant and equipment, share-based compensation, conversion option derivative liability, warranty provision, accrued liabilities and accounts receivable exposures.

## **ALLOWANCE FOR DOUBTFUL ACCOUNTS**

The Company extends unsecured credit to its customers in the ordinary course of business but mitigates the associated credit risk by performing credit checks and actively pursuing past due accounts. An allowance for doubtful accounts is estimated and recorded based on management's assessment of the credit history with the customer and the current relationships with them. On this basis management has determined that an allowance for doubtful accounts of \$221,212 was appropriate as of both June 30, 2013 and December 31, 2012, respectively.

## **INVENTORY**

Inventory is stated at the lower of cost or market determined using the first-in, first-out method. Inventory is periodically reviewed for use and obsolescence, and adjusted as necessary. Inventory consists of raw materials, work-in-process, finished goods and parts.

## **PROPERTY, PLANT AND EQUIPMENT UNDER CONSTRUCTION**

The Company capitalizes customized equipment built to be used in the future day to day operations at cost. Once complete and available for use, the cost for accounting purposes is transferred to property, plant and equipment, where normal depreciation rates apply.

## **PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment are recorded at cost. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets, generally 5 to 7 years. Maintenance and repairs are charged to operations as incurred. Significant renewals and betterments are capitalized.

## **IMPAIRMENT OF LONG-LIVED ASSETS**

The Company follows the Accounting Standards Codification ("ASC") Topic 360, which requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the assets' carrying amounts may not be recoverable. In performing the review for recoverability, if future undiscounted cash flows (excluding interest charges) from the use and ultimate disposition of the assets are less than their carrying values, an impairment loss represented by the difference between its fair value and carrying value, is recognized. Properties held for sale are recorded at the lower of the carrying amount or the expected sales price less costs to sell. Management reviewed certain assets for impairment in the first quarter of 2012 (see Note 7 for details).

## **PATENTS AND TRADEMARKS**

Patents and trademarks are measured at the cost incurred to acquire them from an independent third party (see Note 3). Topic 350-20, Goodwill, and 350-30, General Intangibles Other than Goodwill, in the Accounting Standards Codification ("ASC") requires intangible assets with a finite life be tested for impairment whenever events or circumstances indicate that the carrying amount of an asset (or asset group) may not be recoverable. An impairment loss would be recognized when the carrying amount of an asset exceeds the estimated discounted cash flow used in determining the fair value of the asset. Future impairment tests for Patent and Trademarks will be performed annually in the fiscal fourth quarter, or sooner if warranted.

Patents and trademarks will be amortized on a straight-line basis over their estimated useful lives of five years. Amortization expense was \$0 for the six and three month periods ended June 30, 2013 and 2012.

## **FAIR VALUE OF FINANCIAL INSTRUMENTS**

ASC Topic 820 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Included in the ASC Topic 820 framework is a three level valuation inputs hierarchy with Level 1 being inputs and transactions that can be effectively fully observed by market participants spanning to Level 3 where estimates are unobservable by market participants outside of the Company and must be estimated using assumptions developed by the Company. The Company discloses the lowest level input significant to each category of asset or liability valued within the scope of ASC Topic 820 and the valuation method as exchange, income or use. The Company uses inputs which are as observable as possible and the methods most applicable to the specific situation of each company or valued item.

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities approximate fair value because of their short-term nature. Per ASC Topic 820 framework these are considered Level 2 inputs where inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Our conversion option derivative liability, which is measured at fair value on a recurring basis, is measured using Level 3 inputs.

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. The promissory notes payable and loan payable both have fixed interest rates therefore the Company is exposed to interest rate risk in that they could not benefit from a decrease in market interest rates. In seeking to minimize the risks from interest rate fluctuations, the Company manages exposure through its normal operating and financing activities.

## **DERIVATIVE FINANCIAL INSTRUMENTS**

The Company does not use derivative instruments to hedge exposures to cash flow, market, or foreign currency risks.

The Company reviews the terms of convertible debt, equity instruments and other financing arrangements to determine whether there are embedded derivative instruments, including embedded conversion options that are required to be bifurcated and accounted for separately as a derivative financial instrument. Also, in connection with the issuance of financing instruments, the Company may issue freestanding options or warrants to employees and non-employees in connection with consulting or other services. These options or warrants may, depending on their terms, be accounted for as derivative instrument liabilities, rather than as equity.

Derivative financial instruments are initially measured at their fair value. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported as charges or credits to income. To the extent that the initial fair values of the freestanding and/or bifurcated derivative instrument liabilities exceed the total proceeds received an immediate charge to income is recognized in order to initially record the derivative instrument liabilities at their fair value.

The discount from the face value of the convertible debt or equity instruments resulting from allocating some or all of the proceeds to the derivative instruments, together with the stated rate of interest on the instrument, is amortized over the life of the instrument through periodic charges to income, using the effective interest method.

The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is reassessed at the end of each reporting period. If reclassification is required, the fair value of the derivative instrument, as of the determination date, is reclassified. Any previous charges or credits to income for changes in the fair value of the derivative instrument are not reversed. Derivative instrument liabilities are classified in the unaudited consolidated condensed balance sheet as current or non-current based on whether or not net-cash settlement of the derivative instrument could be required within twelve months of the balance sheet date.

## **REVENUE RECOGNITION**

The Company derives revenue primarily from the sale of its catalytic products. In accordance with Staff Accounting Bulletin No. 104, revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the amount is fixed or determinable and collection is reasonably assured.

The Company also derives revenue (approximately 8.5% and 8.4% of total revenue during the six month period ended June 30, 2013 and 2012, respectively) from providing air testing and environmental certification services. Revenues are recognized upon delivery of testing services when persuasive evidence of an arrangement exists and collection of the related receivable is reasonably assured.

## **LOSS PER COMMON SHARE**

Loss per common share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. Common stock equivalents are excluded from the computation of diluted loss per share when their effect is anti-dilutive.

## **INCOME TAXES**

Income taxes are computed in accordance with the provisions of ASC Topic 740, which requires, among other things, a liability approach to calculating deferred income taxes. The Company recognizes deferred tax liabilities and assets for the expected future tax consequences of events that have been recognized in its financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statement carrying amounts and tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. The Company is required to make certain estimates and judgments about the application of tax law, the expected resolution of uncertain tax positions and other matters. In the event that uncertain tax positions are resolved for amounts different than the Company's estimates, or the related statutes of limitations expire without the assessment of additional income taxes, the Company will be required to adjust the amounts of the related assets and liabilities in the period in which such events occur.

Such adjustments may have a material impact on ESW's income tax provision and results of operations.

## **SHIPPING AND HANDLING COSTS**

The Company's shipping and handling costs of \$48,277 and \$47,062 are included in cost of sales for the six month periods ended June 30, 2013 and 2012, respectively. For the three month periods ended June 30, 2013 and 2012 shipping and handling costs amounted to \$27,417 and \$20,519, respectively. Additionally, the Company has recorded recoveries of these costs amounting to \$40,377 and \$35,997, which are included in revenues for the six month periods ended June 30, 2013 and 2012, respectively. For the three month periods ended March 31, 2013 and 2012 shipping and handling revenues amounted to, \$25,944 and \$13,496, respectively.

## **RESEARCH AND DEVELOPMENT**

The Company is engaged in research and development work. Research and development costs are charged as operating expense of the Company as incurred. Any grant money received for research and development work is used to offset these expenditures. For the six month periods ended June 30, 2013 and 2012, the Company expensed \$240,611 and \$314,318, net of grant revenues, respectively, towards research and development costs. For the three month periods ended June 30, 2013 and 2012, the Company expensed \$158,871 and \$185,770, net of grant revenues, respectively, towards research and development costs. For the six month periods ended June 30, 2013 and 2012, gross research and development expense, excluding any offsetting grant revenues, amounted to \$281,557 and \$314,318, respectively, and grant money amounted to \$40,946 and \$0, respectively. For the three month periods ended June 30, 2013 and 2012, gross research and development expense, excluding any offsetting grant revenues, amounted to \$199,817 and \$185,770, respectively, and grant money amounted to \$40,946 and \$0, respectively.

## **FOREIGN CURRENCY TRANSLATION**

The functional currency of the Company and its foreign subsidiaries is the U.S. dollar. All of the Company's revenue and materials purchased from suppliers are denominated in, or linked to, the U.S. dollar. Transactions denominated in currencies other than the functional currency are converted to the functional currency on the transaction date, and any resulting assets or liabilities are further translated at each reporting date and at settlement. Gains and losses recognized upon such translations are included within foreign exchange gain (loss) in the unaudited consolidated condensed statements of operations and comprehensive loss.

## **PRODUCT WARRANTIES**

The Company provides for estimated warranty costs at the time of sale and accrues for specific items at the time their existence is known and the amounts are determinable. The Company estimates warranty costs using standard quantitative measures based on industry warranty claim experience and evaluation of specific customer warranty issues. The Company currently estimates warranty costs as 2% of revenue. With the recent re-verification of the LongMile-S™, Horizon™ Phoenix™ and Lonestar™ products, ESW has estimated a one-time charge of \$1,000,000 related to its assumption of warranties for legacy Cleaire products in the field. ESW has also estimated a one-time charge of \$504,900 as a potential one-off warranty expenses associated with the ThermaCat, the warranty charges are based on estimating number of operational units, average remaining life and cost of warrantable failure. These amounts, as well as the 2% provision have been included in warranty provision as of June 30, 2013.

As of June 30, 2013 and December 31, 2012, \$1,648,158 and \$143,564, respectively, were accrued as warranty provisions on the balance sheet. For the six month periods ended June 30, 2013 and 2012, the total warranty, service, service travel and installation costs included in cost of revenue were \$1,581,834 and \$142,434, respectively. For the three month periods ended June 30, 2013 and 2012, the total warranty, service, service travel and installation costs included in cost of revenue were \$1,562,722 and \$95,824, respectively.

## SEGMENT REPORTING

ASC 280-10, "Disclosures about Segments of an Enterprise and Related Information", establishes standards for the way that public business enterprises report information about operating segments in the Company's unaudited consolidated condensed financial statements. Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. ESW operates in two reportable segments; medium and heavy duty diesel retrofit operations and air testing services (see Note 17). ESW's chief operating decision maker is the Company's Executive Chairman.

## COMPARATIVE FIGURES

Certain 2012 figures have been reclassified to conform to the current consolidated condensed financial statement presentation.

## NOTE 3 – ASSET ACQUISITION

On April 18, 2013, ESW through a new wholly owned subsidiary ESWCT, completed the transactions contemplated by the Asset Purchase Agreement, dated April 1, 2013 with David P. Stapleton (the "Receiver"), as the receiver for Cleaire Advanced Emission Controls, LLC, a Delaware limited liability company. Prior to shutdown of its operations in January 2013, Cleaire was engaged in the design, development and manufacturing of retrofit emission control systems for diesel engines. Subject to the terms and conditions of the asset purchase agreement, the Company was selected as (and agreed to act as) the "stalking horse bidder" to buy certain of Cleaire's assets for a purchase price of \$1.4 million plus a portion of gross profit realized on a certain purchase order. The purchased assets included inventory, machinery and equipment and patents and trademarks.

Upon the completion of the Asset Purchase Agreement and in accordance with FASB ASC 805 Business Combinations, the Company determined that the above noted Asset Purchase Agreement transaction does not constitute a business combination, and accordingly has accounted for it as an asset acquisition. The total consideration paid was \$1.4 million in cash, plus a portion of gross profit realized on a certain purchase order.

The purchase price allocation is allocated based on the relative fair value of the assets acquired at the asset acquisition date:

<u>Assets acquired</u>	<u>April 18, 2013</u>
Inventory	\$ 1,260,000
Machinery and equipment	98,000
Patents and trademarks	42,000
	<u>\$ 1,400,000</u>

## NOTE 4 – RECENTLY ISSUED ACCOUNTING STANDARDS AND RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

There are no recently adopted accounting pronouncements that impact the Company's financial statements.

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

## NOTE 5 - CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash and highly liquid investments purchased with original maturities of generally 90 days or less at the date of purchase. At June 30, 2013 and December 31, 2012, all of the Company's cash and cash equivalents consisted of cash.

**NOTE 6 - INVENTORY**

Inventory consists of:

<b>Inventory</b>	<b>June 30, 2013</b>	<b>December 31, 2012</b>
Raw materials	\$ 862,368	\$ 914,310
Work-in-process	2,272,100	1,234,375
Finished goods	46,535	28,660
Parts	45,035	37,406
	3,226,038	2,214,751
Less: reserve for inventory obsolescence	(252,473)	(252,473)
<b>Total</b>	<b>\$ 2,973,565</b>	<b>\$ 1,962,278</b>

During the six and three month period ended June 30, 2013, ESW recorded a write down on inventory amounting to \$230,002 relating to obsolete inventory in ESWCT which was included in the cost of revenue. (Six and three month period ended June 30, 2012 - \$0)

**NOTE 7 - PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment consist of the following:

<b>Classification</b>	<b>June 30, 2013</b>	<b>December 31, 2012</b>
Plant, machinery and equipment	\$ 3,569,104	\$ 3,164,175
Office equipment	130,914	75,572
Furniture and fixtures	1,063	2,893
Vehicles	17,038	-
Leasehold improvements	958,603	875,704
	4,676,722	4,118,344
Less: accumulated depreciation	(3,074,679)	(2,735,691)
	<b>\$ 1,602,043</b>	<b>\$ 1,382,653</b>

Depreciation expense recognized in the unaudited consolidated condensed statements of operations and comprehensive loss was included in the following captions:

<b>Depreciation Expense</b>	<b>For the six months periods ended</b>	
	<b>June 30, 2013</b>	<b>June 30, 2012</b>
Depreciation expense included in cost of revenue	\$ 223,400	\$ 179,687
Depreciation expense included in operating expenses	112,578	115,117
Depreciation expense included in research and development costs	3,041	-
<b>Total depreciation expense</b>	<b>\$ 339,019</b>	<b>\$ 294,804</b>

<b>Depreciation Expense</b>	<b>For the three month periods ended</b>	
	<b>June 30, 2013</b>	<b>June 30, 2012</b>
Depreciation expense included in cost of revenue	\$ 110,961	\$ 103,432
Depreciation expense included in operating expenses	57,458	38,935
Depreciation expense included in research and development costs	-	-
<b>Total depreciation expense</b>	<b>\$ 168,419</b>	<b>\$ 142,367</b>

At June 30, 2013 and December 31, 2012, the Company had \$122,827 and \$350,431, respectively, of customized equipment under construction.

Certain property and equipment are used as collateral for borrowings under the Machinery and Equipment Loan Fund (“MELF”) facility (Note 9). All other property and equipment are used as collateral for borrowing under the senior secured convertible promissory notes payable (Note 10).

At March 31, 2012, the Company recognized an impairment loss for furniture, fixtures and office equipment located at its Canadian facility. The estimated recovery from the sale of furniture, fixtures and office equipment was expected to be nominal and, accordingly, the Company valued these assets as \$0 and recorded an impairment loss equal to the full amount of their carrying value.

The details of impairment losses recognized are summarized in the following table:

Asset grouping	For the six month period ended	
	June 30, 2013	June 30, 2012
Furniture & fixtures (Abandonment)	\$ -	\$ 1,800
Office equipment (Abandonment)	-	2,132
Computer hardware (Abandonment)	-	18,475
Computer software (Abandonment)	-	20,267
Total impairment loss recognized	-	42,674
Gain on disposal of plant and equipment	-	(13,729)
Total impairment loss recognized	\$ -	\$28,945

For the three month periods ended June 30, 2013 and 2012 impairment losses recognized was \$0.

#### NOTE 8 – GAIN ON DECONSOLIDATION OF SUBSIDIARY

Effective February 3, 2012 BBL Technologies Inc. (“BBL”), a non-operating subsidiary, filed for bankruptcy in the Province of Ontario, Canada. At the time of filing, BBL had no assets but had issued and outstanding redeemable Class A special shares. The Company did not provide any guarantee in relation to these redeemable Class A special shares. As a result of BBL’s filing for bankruptcy, the Company lost its control over BBL and has deconsolidated BBL from the unaudited consolidated condensed financial statements on the filing date. The Company recorded a \$453,900 gain in the unaudited consolidated condensed statement of operations and comprehensive loss for the six and three month period ended June 30, 2012, upon deconsolidation of BBL.

#### NOTE 9 - LOAN PAYABLE

On April 25, 2012, the Company’s wholly-owned subsidiary ESWA entered into the MELF Facility with the Commonwealth of Pennsylvania for up to \$500,000 for the purchase of equipment and related purchases. Two (2) draw-downs were permitted under the MELF Facility by ESWA. The first draw-down of \$280,787 was made under the MELF Facility in connection with equipment purchased by ESWA on April 25, 2012 (the “Closing Date”). ESWA made one (1) additional draw-down of \$219,213 on November 13, 2012 per the terms of the MELF Facility so that the aggregate amount borrowed under the MELF Facility amounts to \$500,000. Terms of the MELF Facility include initial interest at three (3%) percent per annum with monthly payments and full repayment of the MELF Facility on or before the first day of the eighty fifth (85) calendar month following the Closing Date. As part of the loan agreement, within three years from the Closing Date ESWA is required to create, or retain, at its current location a certain number of jobs that is specified in the loan application. A breach by ESWA in the creation or maintenance of these jobs shall be considered an event of default under the MELF Facility. In the event ESWA defaults on any payments, the MELF Facility may be accelerated with full payment due along with certain additional modifications including the increase in interest to twelve and one half (12 1/2%) percent. The loan is secured by certain property and equipment and a corporate guarantee of the Company.

As of June 30, 2013 and December 31, 2012, the loan payable amounted to \$438,929 and \$473,133, respectively.

For the six month periods ended June 30, 2013 and 2012, the Company paid interest amounting to \$6,884 and \$842 on the loan and also repaid principal in the amount of \$34,204 and \$6,024, respectively.

For the three month periods ended June 30, 2013 and 2012, the Company paid interest amounting to \$3,378 and \$842 on the loan and also repaid principal in the amount of \$17,167 and \$3,008, respectively.

As at June 30, 2013, \$69,966 (December 31, 2013 - \$68,926) of the loan is repayable in the next 12 months with the remaining \$368,963 (December 31, 2012 - \$404,207) repayable thereafter.

Principal on the loan is repayable as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2013 (excluding 6 months ended June 30, 2013)	\$ 34,721
2014	71,022
2015	73,182
2016	75,408
Thereafter	184,596
Total	\$438,929

#### **NOTE 10 – SENIOR SECURED CONVERTIBLE PROMISSORY NOTES**

On March 22, 2013, the Company entered into a note subscription agreement, a security agreement (the “Agreements”) and issued senior secured convertible promissory notes (the “Notes”) to four accredited investors who are currently shareholders (the “Holders”) and may be deemed affiliates of the Company. Pursuant to the Agreements and Notes, the Holders made initial loans of \$1,400,000 to the Company.

On April 23, 2013 and June 27, 2013, the Company issued additional Notes in the principal amount of \$1,600,000 and \$2,000,000, respectively, to the Senior Secured Lenders. The Notes are due on March 22, 2018. The Notes are a part of a senior secured convertible loan facility of up to \$5,000,000 which is now fully drawn down.

The Notes bear interest at a rate of 10% per annum compounded quarterly. Interest is payable semi-annually in arrears in cash and at the Company’s election, during the term of the Notes, up to two accrued and unpaid semi-annual interest payments can be payable in the Company’s common stock valued at the lesser of \$80 per share, subject to adjustment (“Conversion Price”), or the market value of the Company’s common stock, with interest payments commencing September 30, 2013.

At the option of the Holders, all principal, and interest amounts outstanding under all of the Notes may be exchanged for shares of the Company’s common stock at the Conversion Price. The Conversion Price is subject to anti-dilution adjustment in the event the Company at any time, while the Notes are outstanding, issues equity securities including common stock or any security convertible or exchangeable for shares of common stock for no consideration or for consideration less than \$80 per share. The anti-dilution protection excludes shares of common stock issuable upon the exercise of options or other securities granted to directors, officers, bona fide consultants and employees of the Company issued pursuant to a board approved option or incentive plan or stock, warrants or other securities issued to a bank or other financial institution.

The Notes are secured by a lien on and a security interest in all assets of the following wholly owned subsidiaries of the Company: TFI, ESWCT, ESWA and ESWT, excluding certain collateral subject to pre-existing liens.

The Company further agreed to conduct a rights offering to all of its holders of common stock, offering the right to purchase up to their pro-rata Company ownership amount of senior secured convertible promissory notes.

On March 22, 2013, April 23, 2013 and June 27, 2013, the Company recorded a discount on the Notes equal to the fair value of the conversion option derivative liability. This discount is amortized using the effective interest rate method at an interest rate of 9.6%, 17.3% and 38.3% for the March 22, April 23 and June 27 Notes, respectively, over the term of the Notes.

	Six months ended June 30, 2013	Year ended December 31, 2012
Face value of March 22, 2013 notes payable	\$ 1,400,000	\$ -
Face value of April 23, 2013 notes payable	1,600,000	-
Face value of June 27, 2013 notes payable	2,000,000	-
Total face value of promissory notes payable	5,000,000	-
Discount on promissory notes payable	(3,079,102)	-
Amortization of discount on promissory notes payable	46,437	-
	\$ 1,967,335	\$ -

During the six month periods ended June 30, 2013 and 2012, interest expense on the Notes amounted to \$72,311 and \$0, respectively. During the three month periods ended June 30, 2013 and 2012, interest expense on Notes amounted to \$68,811 and \$0, respectively.

## NOTE 11 – CONVERSION OPTION DERIVATIVE LIABILITY

The Company's Notes are subject to anti-dilution adjustments that allow for the reduction in the Conversion Price in the event the Company subsequently issues equity securities including common stock or any security convertible or exchangeable for shares of common stock for no consideration or for consideration less than \$80 per share. Simultaneously with any reduction to the Conversion Price, the number of shares of common stock that may be converted increases proportionately. The Company accounted for the conversion option in accordance with ASC Topic 815. Accordingly, the conversion option is not considered to be solely indexed to the Company's own stock and, as such, recorded as a liability.

The Company's conversion option derivative liability for the \$1.4 million Notes was measured at fair value at March 22, 2013 and subsequently at March 31, 2013 and June 30, 2013 using a binomial model. The Company's conversion option derivative liability for the \$1.6 million Notes was measured at fair value at April 23, 2013 and June 30, 2013 using a binomial model. The Company's conversion option derivative liability for the \$2 million Notes was measured at fair value at June 27, 2013 and June 30, 2013 using a binomial model.

Since the Conversion Price contains an anti-dilution adjustment, the probability that the Conversion Price of the Notes would decrease as the share price decreased was incorporated into the valuation calculation.

The inputs into the binomial model are as follows:

	<u>March 22, 2013</u>	<u>April 23, 2013</u>	<u>June 27, 2013</u>	<u>June 30, 2013</u>
Closing share price	\$40	\$54	\$80	\$80
Conversion price	\$80	\$80	\$80	\$80
Risk free rate	0.80%	0.71%	1.38%	1.41%
Expected volatility	110%	126%	114%	114%
Dividend yield	0%	0%	0%	0%
Expected life	5 years	4.92 years	4.75 years	4.75 years

The fair value of the conversion option derivative liability was \$ 4,117,424 at June 30, 2013 and \$0 at December 31, 2012. The change in the fair value of the conversion option derivative liability of \$1,038,323 was recorded as a loss in the unaudited consolidated condensed statement of operations for the six months ended June 30, 2013. The change in the fair value of the conversion option derivative liability of \$1,330,893 was recorded as a loss in the unaudited consolidated condensed statement of operations for the three months ended June 30, 2013.

	Six months ended June 30, 2013	Year ended December 31, 2012
Beginning balance: Conversion option derivative liability	\$ -	\$ -
Origination of conversion option derivative liability on March 22, 2013	526,810	-
Gain on change in fair value of conversion option derivative liability	(292,570)	-
Ending balance: Conversion option derivative liability on March 31, 2013	\$ 234,240	\$ -
Origination of conversion option derivative liability on April 23, 2013	905,569	-
Origination of conversion option derivative liability on June 27, 2013	1,646,723	-
Loss on change in fair value of conversion option derivative liability	1,330,893	-
Ending balance: Conversion option derivative liability on June 30, 2013	\$ 4,117,424	\$ -

## NOTE 12 - INCOME TAXES

The Company calculates its income tax expense by estimating the annual effective tax rate and applying that rate to the year-to-date ordinary income at the end of the period. The Company records a tax valuation allowance when it is more likely than not that it will not be able to recover the value of its deferred tax assets. As of June 30, 2013 and 2012, the Company calculated its estimated annualized effective tax rate at 0% and 0%, respectively, for both the United States and Canada. The Company had no income tax expense on its \$4,582,452 pre-tax loss for the six months ended June 30, 2013. The Company recognized no income tax expense based on its \$684,268 pre-tax loss for the six months ended June 30, 2012.

The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant tax authority. The Company recognizes interest accrued on uncertain tax positions as well as interest received from favorable tax settlements within interest expense. The Company recognizes penalties accrued on unrecognized tax benefits within general and administrative expenses. As of June 30, 2013 and 2012, the Company had no uncertain tax positions.



The Company does not anticipate any significant changes to the total amounts of unrecognized tax benefits in the next twelve months. In many cases the Company's uncertain tax positions are related to tax years that remain subject to examination by tax authorities. The following describes the open tax years, by major tax jurisdiction, as of June 30, 2013:

United States – Federal	2009 – present
United States – State	2009 – present
Canada – Federal	2010 – present
Canada – Provincial	2010 – present

#### NOTE 13 - STOCKHOLDERS' EQUITY

Effective November 6, 2011, the Board approved restricted stock grants to 7 Board members under the 2010 stock incentive plan. As per the terms of the grant each of the 7 Board members will receive 75 shares vesting in equal parts on December 31, 2011, December 31, 2012 and December 31, 2013 subject to the execution of the requisite grant agreements. Stock-based compensation expense will be recorded based on the vesting terms of the grants. Of the vested shares 350 restricted shares of common stock have been issued as of June 30, 2013.

Effective December 10, 2012, the Board approved a one-time grant of 4,114 shares of restricted common stock from treasury to a member of the Company's Board for services rendered as Executive Chairman, 2,057 shares of which were issued upon the date of grant, and 2,057 shares of which were issued on February 28, 2013. The shares of common stock were issued from treasury not under the Company's 2010 stock incentive plan.

Shares of restricted common stock issued above were valued at the quoted market price on the dates of grant. During the six month periods ended June 30, 2013 and 2012, \$152,243 and \$0, respectively, has been recorded in officers' compensation and directors' fees in the condensed consolidated statements of operations and comprehensive loss for the fair value of each grant of restricted common shares. These amounts along with stock option expense (Note 14) have been included as stock-based compensation in the consolidated condensed statement of changes in stockholders equity.

#### NOTE 14 - STOCK OPTIONS AND WARRANT GRANTS

A summary of option transactions, including those granted pursuant to the terms of certain employment and other agreements is as follows:

Details	Stock Purchase Options	Weighted Average Exercise Price
OUTSTANDING, JANUARY 1, 2012	1,788	\$1,200
Expired	(1,200)	(1,300)
OUTSTANDING, DECEMBER 31, 2012	588	\$1,000
Expired	(50)	(2,000)
OUTSTANDING, JUNE 30, 2013	538	\$901

At June 30, 2013 and December 31, 2012, the outstanding options have a weighted average remaining life of 19 months and 23 months, respectively.

No stock options were granted during the six month periods ended June 30, 2013 and 2012.

The Black-Scholes option-pricing model used by the Company to calculate options and warrant values was developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions, which significantly differ from the Company's stock purchase options and warrants. The model also requires highly subjective assumptions, including future stock price volatility and expected time until exercise, which greatly affect the calculated values.

During the six month period ended June 30, 2013 and 2012, \$20,708 and \$41,417 respectively, of stock option expense has been recorded in officers' compensation and directors' fees in the unaudited consolidated condensed statements of operations and comprehensive loss.

At June 30, 2013, the Company had outstanding options as follows:

<b>Number of Options</b>	<b>Exercise Price</b>	<b>Expiration Date</b>
125	\$540	August 6, 2013
300	\$1,300	April 15, 2015
113	\$240	June 30, 2016
538		

Warrants issued in connection with various private placements of equity securities are treated as a capital transaction and no income statement recognition is required.

No warrants were issued during the six month periods ended June 30, 2013 and 2012.

#### **NOTE 15 - RELATED PARTY TRANSACTIONS**

In addition to fees and salaries as well as reimbursement of business expenses, transactions with related parties include:

- On April 19, 2011, the Company's Board ratified a Services Agreement (the "Orchard Agreement") between the Company and Orchard Capital Corporation ("Orchard") which was approved by the Company's Compensation Committee and was effective January 30, 2011. Under the Orchard Agreement, Orchard agreed to provide services that may be mutually agreed to by and between Orchard and the Company including those duties customarily performed by the Chairman of the Board and executive of the Company as well as providing advice and consultation on general corporate matters and other projects as may be assigned by the Company's Board as needed. Orchard is controlled by Richard Ressler. Certain affiliated entities of Orchard as well as Richard Ressler own shares of the Company. During the six month periods ended June 30, 2013 and 2012, management fees charged to operations amounted to \$150,000 and \$150,000, respectively. During the three month periods ended June 30, 2013 and 2012, management fees charged to operations amounted to \$75,000 and \$75,000, respectively. At June 30, 2013, \$75,000 (December 31, 2012 - \$75,000) is included in accounts payable.

- Mr. Nitin Amersey, a director of the Company, is listed as a control person with the Securities and Exchange Commission of Bay City Transfer Agency Registrar Inc., the Company's transfer agent, and of Freeland Venture Resources Inc., which provides Edgar filing services to the Company. During the six month periods ended June 30, 2013 and 2012, the Company incurred fees to these entities controlled by Mr. Amersey amounting to \$58,029 and \$2,351, respectively. During the three month periods ended June 30, 2013 and 2012, the Company incurred fees to these entities amounting to \$8,595 and \$1,050, respectively.

- Mr. John Dunlap, a director of the Company, is the President of Dunlap Group, which provides consulting services to the Company related to regulatory and regulatory compliance matters. During the six month periods ended June 30, 2013 and 2012, the Company paid fees to Dunlap Group amounting to \$20,996 and \$0, respectively. During the three month period ended June 30, 2013 and 2012, the Company paid fees to Dunlap Group amounting to \$8,683 and \$0, respectively.

- At June 30, 2013, accounts payable includes \$25,360 (December 31, 2012 - \$0) due to directors and companies controlled by directors of the Company.

- On March 22, 2013, April 23, 2013 and June 27, 2013, the Company issued an aggregate amount of \$5,000,000 unsecured convertible promissory notes to certain shareholders and deemed affiliates of certain members of the Board of Directors. During the six month periods ended June 30, 2013 and 2012, interest expense on the Notes amounted to \$72,311 and \$0, respectively. During the three month periods ended June 30, 2013 and 2012, interest expense on the Notes amounted to \$68,811 and \$0, respectively.

## NOTE 16 - COMMITMENTS AND CONTINGENCIES

### LEASES

Effective November 24, 2004, the Company's wholly-owned subsidiary, ESWA, entered into a lease agreement for approximately 40,220 square feet of leasehold space at 200 Progress Drive, Montgomeryville, Pennsylvania. The leasehold space houses the Company's research and development facilities and also houses ESWA's manufacturing operations. The lease commenced on January 15, 2005. Effective October 16, 2009, the Company's wholly-owned subsidiary ESWA entered into a lease renewal agreement with Nappen & Associates for the leasehold property in Pennsylvania. There were no modifications to the original economic terms of the lease under the lease renewal agreement. Under the terms of the lease renewal, the lease term was extended to February 28, 2013. Effective September 24, 2012, ESWA entered into a second lease amendment agreement with Nappen & Associates for the leasehold property in Pennsylvania, whereby ESWA extended the term of the lease agreement by an additional 5 years. There were no modifications to the original economic terms of the lease. Under the terms of the second lease renewal, the lease will expire on February 28, 2018.

On June 7, 2013, the Company's wholly-owned subsidiary, ESWCT, entered into a commercial real estate lease with Trepte Industrial Park, Ltd., a California limited partnership. ESWCT leased approximately 18,000 square feet of commercial property located in San Diego, California, to be used primarily for housing ESWCT's manufacturing and diesel particulate filter cleaning operations. The Lease provides for a 37-month lease term (commencing July 1, 2013), with an option exercisable by ESWCT to extend the lease term for two additional 36-month periods. The current base rent under the Lease is \$15,300 per month. Concurrently with the signing of the Lease and pursuant to the terms thereof, ESWCT paid to the Lessor an amount equal to \$155,600, which amount reflects the first month's base rent, the security deposit, the funding required for improvements done by the Lessor at ESWCT's request, and pre-paid rent. The amount will be credited against monthly base rent payable by ESWCT beginning in January 2014 and each month thereafter, provided that ESWCT shall not have defaulted under the Lease.

The following is a summary of the minimum annual lease payments for the Pennsylvania and San Diego leases:

<b>Year Ending December 31,</b>	<b>Amount</b>
2013 (excluding the six months ended June 30, 2013)	\$ 182,295
2014	242,344
2015	372,935
2016	279,799
2017	180,990
2018	30,165
<b>Total</b>	<b>\$ 1,288,528</b>

### LEGAL MATTERS

From time to time, the Company may be involved in a variety of claims, suits, investigations and proceedings arising from the ordinary course of our business, collections claims, breach of contract claims, labor and employment claims, tax and other matters. Although claims, suits, investigations and proceedings are inherently uncertain and their results cannot be predicted with certainty, ESW believes that the resolution of current pending matters will not have a material adverse effect on its business, consolidated financial position, results of operations or cash flow. Regardless of the outcome, litigation can have an adverse impact on ESW because of legal costs, diversion of management resources and other factors.

The Company is pursuing a lawsuit in New York for collection of unpaid invoices related to goods delivered to a former distributor. The Company was notified of a revised claim filed in the Ontario, Canada Superior Court of Justice on a dispute with a past vendor of ESWC, this claim was previously deemed settled, due to inaction by the vendor. That motion is pending; the Court has not ruled upon it. The Company cannot predict the outcome of this matter at this time.

The Company is also exposed to contingencies on its various warranty programs related to the products produced by TFI and ESWCT. The Company has recorded a provision for these as disclosed in Note 2; however, the actual amount of loss could be materially different.

### NOTE 17 – OPERATING SEGMENTS

The Company has two principal operating segments, air testing services and catalyst manufacturing for MHDD retrofits. These operating segments were determined based on the nature of the products and services offered. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and in assessing performance. The Company's Executive Chairman has been identified as the chief operating decision-maker, and directs the allocation of resources to operating segments based on the profitability and cash flows of each respective segment.

The Company evaluates performance based on several factors, of which the primary financial measure is net income. The accounting policies of the business segments are the same as those described in "Note 2: Summary of Accounting Policies." No intersegment sales were recorded for the six month periods ended June 30, 2013 and 2012. The following tables show the operations and certain assets of the Company's reportable segments:

**For the six months period ended June 30, 2013**

	<b>MHDD Retrofit</b>	<b>Air Testing</b>	<b>Unallocated</b>	<b>Total</b>
Revenue	\$ 4,344,324	\$ 401,021	\$ -	\$ 4,745,345
Net loss	\$ (1,770,395)	\$ (483,936)	\$ (2,328,121)	\$ (4,582,452)

**For the three months period ended June 30, 2013**

	<b>MHDD Retrofit</b>	<b>Air Testing</b>	<b>Unallocated</b>	<b>Total</b>
Revenue	\$ 3,105,196	\$ 184,307	\$ -	\$ 3,289,503
Net loss	\$ (1,592,915)	\$ (287,573)	\$ (2,071,278)	\$ (3,951,766)

**As of June 30, 2013**

	<b>MHDD Retrofit</b>	<b>Air Testing</b>	<b>Unallocated</b>	<b>Total</b>
Total assets	\$ 4,904,410	\$ 1,417,512	\$ 2,400,693	\$ 8,722,615
Property, plant and equipment under construction	\$ -	\$ 122,827	\$ -	\$ 122,827
Property, plant and equipment	\$ 433,108	\$ 1,168,935	\$ -	\$ 1,602,043
Accounts receivable	\$ 990,229	\$ 55,465	\$ -	\$ 1,045,694
Inventories	\$ 2,966,343	\$ 7,222	\$ -	\$ 2,973,565
Patents	\$ 42,000	\$ -	\$ -	\$ 42,000

**For the six months period ended June 30, 2012**

	<b>MHDD Retrofit</b>	<b>Air Testing</b>	<b>Unallocated</b>	<b>Total</b>
Revenue	\$ 4,464,541	\$ 411,164	\$ -	\$ 4,875,705
Net loss	\$ (324,884)	\$ (450,135)	\$ 90,751	\$ (684,268)

**For the three months period ended June 30, 2012**

	<b>MHDD Retrofit</b>	<b>Air Testing</b>	<b>Unallocated</b>	<b>Total</b>
Revenue	\$ 2,083,458	\$ 260,645	\$ -	\$ 2,344,103
Net (loss) income	\$ 422,006	\$ 63,109	\$ (743,312)	\$ (258,197)

**As of December 31, 2012**

	<b>MHDD Retrofit</b>	<b>Air Testing</b>	<b>Unallocated</b>	<b>Total</b>
Total assets	\$ 3,614,649	\$ 1,776,344	\$ 14,125	\$ 5,405,118
Property, plant and equipment under construction	\$ 1,399	\$ 349,032	\$ -	\$ 350,431
Property, plant and equipment	\$ 205,135	\$ 1,177,518	\$ -	\$ 1,382,653
Accounts receivable	\$ 1,203,355	\$ 118,965	\$ -	\$ 1,322,320
Inventories	\$ 1,952,276	\$ 10,002	\$ -	\$ 1,962,278

All of the Company's revenue for the six and three month periods ended June 30, 2013 and 2012 was derived from the United States. Net property, plant and equipment (including property, plant and equipment under construction) located outside of the United States are less than 10% of total assets at June 30, 2013 and 2012.

## **NOTE 18 - LOSS PER SHARE**

Potential common shares of 538 related to ESW's outstanding stock options and 0 shares related to ESW's outstanding warrants, were excluded from the computation of diluted loss per share for the six and three month period ended June 30, 2013 because the inclusion of these shares would be anti-dilutive. We have also excluded 62,500 common shares that would be issuable based on an exercise price of \$80 per share related to the senior secured convertible promissory notes, as well as the additional shares issuable if the holders elect to convert interest or if the conversion option derivative liability is triggered by a future financing, from the computation of diluted loss per share as their effect would be anti-dilutive.

Potential common shares of 712 related to ESW's outstanding stock options and 772 shares related to ESW's outstanding warrants, were excluded from the computation of diluted loss per share for the six and three month period ended June 30, 2012 because the inclusion of these shares would be anti-dilutive.

## **NOTE 19 - RISK MANAGEMENT**

### **CONCENTRATIONS OF CREDIT RISK AND ECONOMIC DEPENDENCE**

The Company's cash balances are maintained in various banks in Canada and the United States. Deposits held in banks in the United States are insured up to \$250,000 per depositor for each bank by the Federal Deposit Insurance Corporation. Deposits held in banks in Canada are insured up to \$100,000 Canadian per depositor for each bank by The Canada Deposit Insurance Corporation, a federal crown corporation. Actual balances at times may exceed these limits.

Accounts Receivable and Concentrations of Credit Risk: The Company performs on-going credit evaluations of its customers' financial condition and generally does not require collateral from its customers. Three of its customers accounted for 26.8%, 14.5% and 10.1%, respectively, of the Company's revenue during the six month period ended June 30, 2013 and 36.3%, 27.1% and 6.1%, respectively, of its accounts receivable as of June 30, 2013.

Three of its customers accounted for 19.5%, 11.4% and 10.6%, respectively, of the Company's revenue during the six month period ended June 30, 2012 and 26.9%, 21.0% and 13.1%, respectively, of its accounts receivable as of June 30, 2012.

For the six month period ended June 30, 2013, the Company purchased approximately 13.4% and 11.1% of its inventory from two vendors. For the six month period ended June 30, 2012, the Company purchased approximately 20.1% and 15.1% of its inventory from two vendors. The accounts payable to these vendors aggregated \$466,433 and \$334,575 as of June 30, 2013 and 2012, respectively.

## **NOTE 20 - SUBSEQUENT EVENTS**

### **CHANGES IN MANAGEMENT**

On August 1, 2013, Environmental Solutions Worldwide, Inc. (the "Company") appointed Brian Webster to the position of Chief Operating Officer. The terms of Mr. Webster's employment were not materially amended in connection with this appointment. Virendra Kumar, the Company's previous Vice President of Operations, was promoted to Chief Commercial Officer on August 1, 2013. Concurrently on August 1, 2013, Frank Haas's title was changed from Chief Regulatory and Technology Officer of the Company to Director of Engineering.

### **CHANGES IN AGREEMENTS**

On August 1, 2013, the Company's Board ratified a change to the compensation terms under Services Agreement between the Company and Orchard Capital Corporation. Compensation under the agreement was increased to \$430,000 from \$300,000 per annum effective August 1, 2013.

### **CHANGES IN EXECUTIVE COMPENSATION**

On August 1, 2013, upon the recommendation of the Compensation Committee the Company's Board ratified a change to the compensation for the Chief Commercial Officer and Chief Financial Officer. Compensation for both positions was increased to \$180,000 from \$150,000 per annum effective August 1, 2013. For 2013 the Non-equity incentive plan opportunity was ratified at \$65,000 for the two positions, non-equity incentive compensation is calculated by assigning 70% weight to quantitative financial goals (35% to each of revenue and EBITDA) and 30% to non-quantitative goals.

## **CHANGES IN BOARD COMPENSATION**

On August 1, 2013, the Company's Board ratified a change to the board fee composition. The Chairman of the Audit Committee and Chairman of the Compensation Committee each earn a fee equated to \$70,000 per annum, the board approved amendment to the payout of the fees with up to \$36,000 paid in cash (\$3,000 per month), and \$34,000 paid in restricted stock at \$80 per share with a 3 year vesting period. For other board members (excluding Executive Chairman, Chairman of the Audit Committee, and Chairman of the Compensation Committee), each board member earns a fee of \$40,000 per annum, the board approved amendment to the payout of the fees with up to \$20,000 per annum, payable in cash at the board members election, and the remaining portion in stock issued at \$80 per share, with a three year vesting period from the time of issuance.

On August 1, 2013, the Company's Board approved a one-time issuance to each board member (excluding Executive Chairman) 500 shares of restricted stock, with 167 shares vested at the time of issuance and with a remaining 2 years vesting period from the time of issuance. The shares are related to compensation for 2012 restricted stock issuance that was not completed in 2012.

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

The following discussion should be read in conjunction with ESW's consolidated condensed financial statements and Notes thereto included elsewhere in this Report.

This Form 10-Q contains certain forward-looking statements regarding, among other things, the anticipated financial and operating results of ESW's business. Investors are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. ESW undertakes no obligation to publicly release any modifications or revisions to these forward-looking statements to reflect events or circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events. In connection with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, ESW cautions investors that actual financial and operating results may differ materially from those projected in forward-looking statements made by, or on behalf of, ESW. Such forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause the actual results, performance, or achievements to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. This report should be read in conjunction with ESW's Annual Report on Form 10-K, for the year ended December 31, 2012 as filed with the Securities and Exchange Commission.

### GENERAL OVERVIEW

Environmental Solutions Worldwide Inc. ("we," "us," "ESW" or the "Company") is a publicly traded company engaged through its wholly-owned subsidiaries ESW Canada Inc. ("ESWC"), ESW America Inc. ("ESWA"), Technology Fabricators Inc. ("TFI"), ESW CleanTech Inc ("ESWCT") and ESW Technologies Inc. ("ESWT"), (together the "ESW Group® of Companies") in the design, development, manufacture and sale of emission technologies and services. ESW is currently focused on the medium and heavy duty diesel engine market for on-road and off-road vehicles as well as the utility engine, mining, marine, locomotive and military industries. ESW also offers engine and after treatment emissions verification testing and certification services.

ESW was incorporated in the State of Florida in 1987. Our principal executive offices are located at 200 Progress Drive, Montgomeryville, PA, 18936. Our telephone number is (905) 695-4142 and (215) 699-0730. Our website is [www.eswgroup.com](http://www.eswgroup.com). Information contained on our website does not constitute a part of this 10-Q report.

ESW's focus is to be a leading player in the environmental emissions market by providing leading-edge catalyst technology as well as best-in-class engine, motorcycle / ATV and vehicle emissions testing services. The Company's strategy is centered on identifying and deploying resources against its "sweet-spot" products, where ESW has identified its core competencies and differentiation in the marketplace. ESW's core geographical focus is North America, and the Company will opportunistically explore business development opportunities in other markets if accretive to the Company in the short term. By focusing financial, human and intellectual capital on ESW's core competencies and markets, the Company is targeting profitable growth in the short term and value creation for its shareholders over the long term.

In 2013, ESW is executing on the following items to succeed in its business strategy:

- Deliver value derived from the purchase of the Cleaire assets.
- Increase the revenue and margin opportunities from its on-road and off-road retrofit product lines by identifying and focusing resources on its "sweet-spots".
- Expand its North American distribution network and increase its "share of wallet" with the funding agencies by becoming the supplier of choice of emissions compliance solutions to the market.
- Seek complementary partnerships that provide growth opportunities for its core businesses.
- Invest in new product and process technologies to broaden its array of products available to distributors and end-users.
- Act as a trusted emissions solution provider to regulators and clients.
- Capitalize on ESW America's unique geographical presence and perform engine emissions verification test protocols to provide value-added services in the testing verification /certification for ESW as well as third party products.
- Implement a continuous improvement and performance based culture, focused on identifying product design improvements, streamlining processes and optimizing manufacturing capabilities.
- Focus on delivering exceptional product quality and customer service.

ESW continues to focus on optimizing the Company's operations around its "sweet spots" and capturing a greater market share in the catalytic converter retrofit and emissions testing markets whilst ensuring steps towards profitable growth. The key factors that are in ESW's favor are: (a) continued regulatory push for emissions reductions in the United States, (b) funding available from public agencies, (c) market-leading Level III active catalytic converter technologies and an established distribution network in North America, and (d) CARB and EPA certification and verification capable emissions and durability testing services.

ESW believes that it can improve and achieve profitability and grow its business by continuing to pursue the following strategy:

- Focus on delivering controlled growth to its shareholders.
- Provide integrated solutions to the emissions market by leveraging its product development, testing and certification services, and distribution and post-sale services capabilities.
- Center the Company's sales strategy around identified "sweet-spots" that will allow manufacturing efficiency gains and optimized resource allocation.
- Educate the end customers and regulatory agencies about the technology as a supplier of choice emissions compliance solutions in the market.
- Enhance customer service functions.
- Work with vendors to optimize ESW's material buys and lead times.
- Constantly review operations, processes and products under a Continuous Improvement / Performance Based culture.

With this growth strategy in focus, ESW had entered into an asset purchase agreement with the acting receiver for Cleaire. Cleaire was engaged in the design, development and manufacturing of retrofit emission control systems for diesel engines. On April 18, 2013, the Court issued the sale order to consummate the transactions contemplated by the Asset Purchase Agreement for a purchase price of \$1.4 million plus a portion of gross profit realized on a certain purchase order.

Upon the completion of the Asset Purchase Agreement and in accordance with FASB ASC 805 Business Combinations, the Company determined that the above noted Asset Purchase Agreement transaction does not constitute a business combination, and accordingly has accounted for the transaction as an asset acquisition.

Effective April 18, 2013 the Company established a new wholly owned Subsidiary, ESWCT, a Delaware corporation, which houses the assets purchased from Cleaire. ESWCT will operate out of San Diego, California.

On May 17, 2013, ESW received notification from California Air Resource Board ("CARB") that ESWCT has met the requirements under Verification Procedure, Warranty, and In-Use Compliance Requirements for In-Use Strategies to Control Emissions from Diesel Engines, and the verifications of the LongMile-S™ and Horizon™ products have been transferred to ESWCT from Cleaire. On June 18, 2013, CARB notified ESW that the verifications of the Vista™ and Longview™ products have been transferred to ESWCT from Cleaire.

Effective June 7, 2013, ESWCT entered into a commercial real estate lease with Trepte Industrial Park, Ltd., a California limited partnership. ESWCT leased approximately 18,000 square feet of commercial property located in San Diego, California, for housing ESWCT manufacturing and diesel particulate filter cleaning operations. The Lease has a 37-month lease term (commencing on July 1, 2013), with an option to extend the lease term for two additional 36-month periods. The current base rent under the Lease is \$15,300 per month. ESWCT operations in San Diego California will currently produce the LongMile-S™, Horizon™, Vista™ and Longview™, in the longer term both locations in Pennsylvania and California will be synergized and be used to produce all products or related components.

ESW has made significant investments in research and development and obtaining regulatory approvals for its technologies.

ESW's XtrmCat product designed for locomotive, Tier 0, turbocharged EMD 645 and 710 engines was tested at an EPA recognized facility for certification during March and April 2011 along with the marine product together with a partner company. We are exploring opportunities to obtain certifications for the aforementioned locomotive engines.

ESW is currently pursuing regulatory verifications of the ThermaCat-e, Phoenix™ and Skyline™ Level III Plus Diesel Particulate Filter System for off-road engines. ESW is also pursuing the verification of two other passive off road level III products.

ESW believes that with the current and additional verification of products, ESW covers a significant portion of the market and gives ESW the competitive advantage to be the trusted supplier of emissions compliance solution in retrofit market.

The cost of developing a complete range of products to meet regulations is substantial. ESW believes that it possesses a competitive advantage in ensuring regulatory compliance by leveraging its testing and research facility in Montgomeryville, Pennsylvania to support its certification and verification efforts. Historically, ESW has also managed to offset some of these development costs through the application of research grants and tax refunds.

In the first quarter of 2013, ESW experienced a seasonal reduction in demand for its ThermaCat, in addition to a growth in market demand for passive-regeneration retrofit products. Additionally, the shutdown of Cleaire's operations in January 2013 created a level of uncertainty in the retrofit market further affecting sales of the ThermaCat. In the second quarter of 2013 ThermaCat sales improved primarily due to seasonality and increased enforcement action by CARB.



Our ESW America Air Testing business revenue has remained consistent in the first half of 2013 as compared to the same period in 2012. ESWA contributed a total of \$401,021 of revenue during the first half of 2013.

During the first half of 2013 ESW entered into a senior secured convertible loan facility of \$5 million with certain shareholders of the Company. As of June 30, 2013 the loan facility has been fully funded. Proceeds of the Loan have funded and will fund the purchase of the Cleaire assets, working capital, planned capital investments and other general corporate purposes.

On January 23, 2013, ESW's Board of Directors approved a one-for-two thousand reverse split of the Company's common stock. Upon the completion of the reverse stock split, which was effective on May 24, 2013, there was no change to the Company's authorized shares of common stock, which remained 250,000,000 shares, par value \$0.001 per share. Issued and outstanding common stock was reduced from 228,213,173 shares to approximately 113,464 shares.

## COMPARISON OF THE SIX MONTH PERIOD ENDED JUNE 30, 2013 TO THE SIX MONTH PERIOD ENDED JUNE 30, 2012

### RESULTS OF OPERATIONS

The following management's discussion and analysis of financial condition and results of operations (MD&A) should be read in conjunction with the MD&A included in ESW's Annual Report on Form 10-K, for the year ended December 31, 2012. Revenues for the six month period ended June 30, 2013, decreased by 2.7 percent, to \$4,745,345 from \$4,875,705 for the comparable period in 2012. The decrease in revenue is related to reduced sales of military product in 2013 versus prior year, the growth in market demand for passive-regeneration retrofit products in the first half of 2013, and uncertainty in the retrofit market with the shutdown of Cleaire's operations.

Cost of revenue as a percentage of revenues for the six month period ended June 30, 2013 was 104.4 percent compared to 65.6 percent for the six month period ended June 30, 2012. Cost of revenue for the period ended June 30, 2013 increased by \$1,753,889 or 54.8 percent. The primary reason for the increase in the cost of revenue during the six month period ended June 30, 2013 was the inclusion of an estimated one-time warranty charge of \$1,000,000 related to the assumption of warranties for legacy Cleaire products in the field as well as an additional one-time warranty charge of \$504,900 related to potential one-off warranty expenses associated with the ThermaCat. ESW also recorded a one-time write down on inventory amounting to \$230,002 relating to obsolete inventory in ESWCT which was included in the cost of revenue. Consequently, gross margin for the six month period ended June 30, 2013 was negative 4.4 percent compared to 34.4 percent for the six month period ended June 30, 2012.

Marketing, office and general expenses for the six month period ended June 30, 2013 increased 14.6 percent to \$2,137,526 from \$1,865,510 for the same period in 2012. The increase is primarily due to: (a) increase in factory expense of \$173,994 mainly resulting from setup expenses for ESWCT, (b) an increase in general administration expenses of \$97,303 primarily due to increased business insurance expenses and ESWCT related expenses, (c) increase in administration salaries and wages of \$144,112 mainly attributed to start of operations for ESWCT, and (d) increase in investor relation costs of \$195,982 related to costs in connection with corporate actions including the 2000:1 reverse split. The increases were offset by (a) decrease in customer service, sales and marketing and wages and selling expenses of \$273,310 mainly related to a 2012 bad debt provision which was not incurred in 2013, and (b) decrease in facility expenses of \$66,065 resulting from rent and cost savings related to the release of the Canadian facility in 2012.

Officers' compensation and directors' fees for the six month period ended June 30, 2013 increased by \$124,116, or 39.8 percent, to \$435,707 from \$311,591 for six month period ended June 30, 2012. The increase is mainly related to stock based compensation expense incurred on issuance of shares of restricted common stock to a member of the Company's Board.

Research and development ("R&D") expenses for the six month period ended June 30, 2013 decreased by \$73,707, or 23.4 percent, to \$240,611 versus the six month period ended June 30, 2012. The primary driver of R&D expenses for the six month period ended June 30, 2013 was related to ESW's pursuit of the verification expansion of its Level III product and transfer of verifications for new products related to ESWCT. ESW benefitted during the first six month period of 2013 from research and development tax credits amounting to \$40,946. During six month period ended June 30, 2012 there was no grant funding or tax credit to offset R&D cost.

Consulting and professional fees for the six month period ended June 30, 2013 increased by \$143,886, or 106.1 percent, to \$279,499 from \$135,613 for six month period ended June 30, 2012. The increase is mainly due to legal and consulting fees in connection with corporate actions including the setup of the ESWCT subsidiary and acquisition of certain assets from Cleaire.

Depreciation and amortization expense for the six month period ended June 30, 2013 decreased by \$2,539, or 2.2 percent to \$112,578 from \$115,117 for the six month period ended June 30, 2012.

Foreign exchange loss for the six month period ended June 30, 2013, was \$11,180 as compared to a loss of \$43,043 for the six month period ended June 30, 2012. This is a result of the fluctuation in the exchange rate of the Canadian Dollar to the United States Dollar.

Impairment loss for the six month period ended June 30, 2013 was \$0. For the six month period ended June 30, 2012, ESW had valued the impairment loss at \$28,945 for the balance of the office equipment, furniture and fixtures of ESW Canada Inc. The former landlord of the Canadian property terminated the lease for the facility as of May 1, 2012.

Loss from operations for the six month period ended June 30, 2013 increased by \$2,287,213 to \$3,425,381 from \$1,138,168 for the six month period ended June 30, 2012. ESW's loss from operations for the six month period ended June 30, 2013 included the following non-cash items: a one-time warranty provision of \$1,504,900, depreciation expenses of \$339,019, loss on write down of inventory of \$230,002 and stock based compensation expense of \$172,951. In addition, loss from operations was higher in the six month period ended June 30, 2013 as compared to June 30, 2012 due to expenses related to the set-up of ESWCT operations in San Diego.

Effective February 3, 2012 ESW's wholly-owned non-operational subsidiary BBL Technologies Inc., ("BBL") filed for bankruptcy in the Province of Ontario, Canada. Due to the insolvency of BBL, the redeemable Class A special shares were cancelled and the Company recorded a \$453,900 gain on the consolidated condensed statement of operations and comprehensive loss.

During the six month period ended June 30, 2013, the Company recorded the following costs and gain related to a senior secured convertible loan facility:

- \$71,311 - Interest on notes payable to related parties
- \$46,437 - Debt related discount amortization
- \$1,038,323 - Loss on convertible derivative

No costs related to financing and debt transactions were incurred in the six month period ended June 30, 2012.

## **COMPARISON OF THE THREE MONTH PERIOD ENDED JUNE 30, 2013 TO THE THREE MONTH PERIOD ENDED JUNE 30, 2012**

### **RESULTS OF OPERATIONS**

The following management's discussion and analysis of financial condition and results of operations (MD&A) should be read in conjunction with the MD&A included in ESW's Annual Report on Form 10-K, for the year ended December 31, 2012.

Revenues for the three month period ended June 30, 2013, increased by 40.3 percent, to \$3,289,503 from \$2,344,103 for the comparable period in 2012. In the second quarter of 2013, sales of the ThermaCat significantly rose relative to a slow first quarter.

Cost of revenue as a percentage of revenues for the three month period ended June 30, 2013 was 117.5 percent compared to 62.1 percent for the three month period ended June 30, 2012. Cost of revenue for the period ended June 30, 2013 increased by \$2,407,970 or 165.3 percent. The primary reason for the increase in the cost of revenue during the three month period ended June 30, 2013 was the inclusion of an estimated one-time warranty charge of \$1,504,900 related to the assumption of warranties for legacy Cleaire products in the field as well as potential one-off warranty expenses associated with the ThermaCat. ESW also recorded a one-time write down on inventory amounting to \$230,002 which was included in the cost of revenue. Consequently, gross margin for the three month period ended June 30, 2013 was negative 17.5 percent compared to 37.9 percent for the three month period ended June 30, 2012.

Marketing, office and general expenses for the three month period ended June 30, 2013 increased 103.0 percent to \$1,370,131 from \$675,060 for the same period in 2012. The increase is primarily due to: (a) increase in factory expense of \$208,141 mainly resulting from setup expenses for ESWCT, (b) increase in general administration expenses of \$193,411 primarily due to the increased business insurance expenses and ESWCT related expenses, (c) increase in administration salaries and wages of \$135,937 mainly attributed to start of operations for ESWCT, (d) increase in investor relation costs of \$76,548 related to costs in connection with corporate actions, (e) increase in customer service, sales and marketing and wages and selling expenses of \$2,458, and (f) increase in facility expenses of \$78,576 resulting from rent expenses for ESWCT.

Officers' compensation and directors' fees for the three month period ended June 30, 2013 decreased by \$23,990, or 15.5 percent, to \$130,494 from \$154,484 for the three month period ended June 30, 2012.

Research and development ("R&D") expenses for the three month period ended June 30, 2013 decreased by \$26,899, or 14.5 percent, to \$158,871 versus \$185,770 for the three month period ended June 30, 2012. The primary driver of R&D expenses for the three month period ended June 30, 2013 was related to ESW's pursuit of the verification expansion of its Level III product and transfer of verifications for new products related to ESW CleanTech Inc. During the three month period ended June 30, 2013 and 2012 there was no grant funding or tax credit to offset R&D cost.

Consulting and professional fees for the three month period ended June 30, 2013 increased by \$132,753, or 166.7 percent, to \$212,382 from \$79,629 for the three month period ended June 30, 2012. The increase is mainly due to legal and consulting fees in connection with corporate actions including the setup of the ESWCT subsidiary and acquisition of certain assets from Cleaire.

Depreciation and amortization expense for the three month period ended June 30, 2013 increased by \$18,523, or 47.6 percent to \$57,458 from \$38,935 for the three month period ended June 30, 2012.

Foreign exchange loss for the three month period ended June 30, 2013, was \$3,068 as compared to a loss of \$11,612 for the three month period ended June 30, 2012. This is a result of the fluctuation in the exchange rate of the Canadian Dollar to the United States Dollar.

Loss from operations for the three month period ended June 30, 2013 increased by \$2,249,484, to \$2,507,681 from \$258,197 for the three month period ended June 30, 2012. ESW's loss from operations for the three month period ended June 30, 2013 included the following non-cash items: a one-time warranty provision of \$1,504,900, depreciation expenses of \$168,418 and loss on write down of inventory of \$230,002. In addition loss from operations was higher in the three month period ended June 30, 2013 as compared to June 30, 2012 due to expenses related to the set-up of ESWCT operations in San Diego.

During the three month period ended June 30, 2013, the Company recorded the following costs and gain related to a senior secured convertible loan facility:

- \$68,811 - Interest on notes payable to related parties
- \$44,381 - Debt related discount amortization
- \$1,330,893 - Loss on convertible derivative

No costs related to financing and debt transactions were incurred in the six month period ended June 30, 2012.

## LIQUIDITY AND CAPITAL RESOURCES

ESW's principal sources of operating capital have been the proceeds from its various financing transactions. During the six month period ended June 30, 2013, the Company used \$2,244,937 of cash to sustain operating activities compared with \$1,005,746 for the six month period ended June 30, 2012. As of June 30, 2013 and 2012, the Company had cash and cash equivalents of \$2,550,537 and \$78,556, respectively.

Net cash used in operating activities for the six month period ended June 30, 2013 amounted to \$2,244,937. This amount was attributable to the net loss of \$4,582,452, plus non-cash expenses such as depreciation, stock based compensation, conversion option derivative liability, discount on promissory notes payable, warranty provisions and others of \$3,403,943, less a decrease in net operating assets and liabilities of \$1,066,428.

Net cash used in operating activities for the six month period ended June 30, 2012 amounted to \$1,005,746. This amount was attributable to the net loss of \$684,268, plus non-cash expenses such as stock based compensation, gain on deconsolidation of BBL and others of \$231,734, less a decrease in net operating assets and liabilities of \$553,212.

Net cash used in investing activities was \$372,805 for the six month period ended June 30, 2013, as compared to \$292,869 used in investing activities for the six month period ended June 30, 2012.

Net cash provided by financing activities totaled \$4,914,281 through a loan payable repayment of \$34,204 in principal and \$5,000,000 proceeds from notes payable to related parties and re-purchase of common stock of \$51,515 for the six month period ended June 30, 2013, as opposed to net cash provided by financing activities of \$273,522 for the six month period ended June 30, 2012. In the prior year period of 2012, \$280,787 was provided from proceeds of a loan payable, \$6,024 used in loan payable principal repayment and \$1,241 was used for repayment under capital lease obligation.

ESW operates in a capital intensive and highly regulated industry, where a long lead time to bring new products into market is considered normal. ESW continues to invest in research and development to improve its technologies and bring them to the point where its customers have a high confidence level to purchase our products.

During the six month period ended June 30, 2013 and in 2012, ESW did not produce sufficient cash from operations to support its expenditures, prior and current financings supported the Company's operations during the period. ESW's principal use of liquidity relates to the Company's working capital needs and to finance any further capital expenditures or tooling needed for production and/or its testing facilities.

ESW anticipates certain capital expenditures during the remainder of 2013 related to the general operation of its business as well as to upgrade the Air Testing Services facilities in Montgomeryville, Pennsylvania according to a board approved capital expenditure plan.

Overall, capital adequacy is monitored on an ongoing basis by our management and reviewed quarterly by the Board of Directors. The Company has sustained recurring operating losses. As of June 30, 2013, the Company had an accumulated deficit of \$59,092,830 and cash and cash equivalents of \$2,550,537. ESW's history of losses and the current prevailing economic conditions all create uncertainty in the operating results and, accordingly, there is no assurance that the Company will be successful in generating sufficient cash flow from operations or achieving profitability in the near future. The Company may require additional financing to fund its continuing operations and planned capital investments.

## DEBT STRUCTURE

At June 30, 2013, ESW had \$6,523,688 (December 31, 2012 - \$473,133) of debt on the consolidated condensed balance sheet, of this amount \$69,966 (December 31, 2012 - \$68,926) is repayable in the next 12 months.

On April 25, 2012, the Company's wholly-owned subsidiary ESWA entered into a Machinery and Equipment Loan Fund ("MELF Facility") with the Commonwealth of Pennsylvania for up to \$500,000 for the purchase of equipment and related purchases. Two (2) draw-downs were permitted under the MELF Facility by ESWA. The first draw-down of \$280,787 was made under the MELF Facility in connection with equipment purchased by ESWA on April 25, 2012 (the "Closing Date"). ESWA made one (1) additional draw-down of \$219,213 on November 13, 2012 per the terms of the MELF Facility so that the aggregate amount borrowed under the MELF Facility amounts to \$500,000.

Terms of the MELF Facility include initial interest at three (3%) percent per annum with monthly payments and full repayment of the MELF Facility on or before the first day of the eighty fifth (85) calendar month following the Closing Date. As part of the loan agreement, within three years from the Closing Date ESWA is required to create, or retain, at its current location a certain number of jobs that is specified in the loan application. A breach by ESWA in the creation or maintenance of these jobs shall be considered an event of default under the MELF Facility. In the event ESWA defaults on any payments, the MELF Facility may be accelerated with full payment due along with certain additional modifications including the increase in interest to twelve and one half (12 1/2%) percent. In connection with the MELF Facility, the Company entered into a Guaranty and a Loan and Security Agreement on behalf of its wholly-owned subsidiary ESWA.

On March 22, 2013, the Company entered into a note subscription agreement and a security agreement and issued senior secured five (5) year convertible promissory notes (collectively the "Loan Agreements") to Black Family Partners LP, John J. Hannan, Orchard Investments, LLC and Richard Ressler (each individually a "Senior Secured Lender" or "Holder" and collectively the "Senior Secured Lenders" or "Holders") who are current shareholders and may be deemed affiliates of the Company. The Loan Agreements are a part of a senior secured convertible loan facility of up to \$5 million (the "Senior Secured Loan Facility") wherein the Senior Secured Lenders agreed that at any time prior to March 22, 2014, upon approval of the Company's board of directors, additional closings can take place for up to the \$5 million of the facility in which each Holder will be required to purchase additional Notes allocated among the Holders as agreed to in the Loan Agreements (each a "Subsequent Closing" or "Subsequent Closings"). The Loan Agreements and the Senior Secured Loan Facility were approved by the independent directors of the Company.

Pursuant to the Loan Agreements, the Senior Secured Lenders made loans to the Company in the principal aggregate amount of \$5 million (the "Loan"), subject to the terms and conditions set forth in the Loan Agreements and represented by senior secured convertible promissory notes (the "Notes"), dated March 22, 2013, April 23, 2013 and June 27, 2013.

Proceeds of the Loan were directed at the purchase of the Cleaire assets, as well as to fund working capital, planned capital investments and other general corporate purposes of the Company and/or its subsidiaries.

The Notes are secured by a lien on and a security interest in all assets of the following wholly owned subsidiaries of the Company: Technology Fabricators, Inc., ESW America, Inc., ESW CleanTech Inc., and ESW Technologies, Inc., excluding certain collateral subject to pre-existing liens. The Notes bear interest at a rate of 10% per annum compounded quarterly. Interest is payable semi-annually in arrears in cash and at the Company's election, during the term of the Notes, up to two accrued and unpaid semi-annual interest payments can be payable in the form of the Company's common stock, \$0.001, par value (the "Common Stock") valued at the lesser of \$80, subject to adjustment (the "Conversion Price") or the market value of the Company's Common Stock with interest payments commencing September 30, 2013. At the option of the holders of the Notes representing a majority of the then-outstanding principal balance of the Notes, all principal, and interest amounts then outstanding under all of the Notes may be exchanged for shares of the Company's Common Stock at the Conversion Price. The Conversion Price is subject to anti-dilution adjustment in the event the Company at any time while the Notes are outstanding issues equity securities including Common Stock or any security convertible or exchangeable for shares of Common Stock for no consideration or for consideration less than \$80 a share. The anti-dilution protection excludes shares of Common Stock issuable upon the exercise of options or other securities granted to directors, officers, bona fide consultants and employees of the Company issued pursuant to a board approved option or incentive plan or stock, warrants or other securities issued to a bank or other financial institution in connection.

As a part of the Senior Secured Loan Facility, the Company further agreed to conduct a rights offering to all of its holders of Common Stock, offering all such holders the right to purchase up to their pro-rata Company ownership amount of senior secured five (5) year convertible promissory notes that will be similar to the Notes (the "Rights Offering").

## CONTRACTUAL OBLIGATIONS

### LEASES

Effective November 24, 2004, the Company's wholly-owned subsidiary, ESWA, entered into a lease agreement for approximately 40,220 square feet of leasehold space at 200 Progress Drive, Montgomeryville, Pennsylvania. The leasehold space houses the Company's research and development facilities and also houses ESW's manufacturing operations. The lease commenced on January 15, 2005. Effective October 16, 2009, the Company's wholly-owned subsidiary ESWA entered into a lease renewal agreement with Nappen & Associates for the leasehold property in Pennsylvania. There were no modifications to the original economic terms of the lease under the lease renewal agreement. Under the terms of the lease renewal, the lease term was extended to February 28, 2013. Effective September 24, 2012, ESWA entered into a second lease amendment agreement with Nappen & Associates for the leasehold property in Pennsylvania, whereby ESWA extended the term of the lease agreement by an additional 5 years. There were no modifications to the original economic terms of the lease. Under the terms of the second lease renewal, the lease will expire on February 28, 2018.

On June 7, 2013, the Company's wholly-owned subsidiary, ESWCT, entered into a commercial real estate lease with Treppe Industrial Park, Ltd., a California limited partnership, pursuant to which ESWCT leased approximately 18,000 square feet of commercial property located in San Diego, California, from the Lessor to be used primarily for housing ESWCT's manufacturing and diesel particulate filter cleaning operations. The Lease provides for a 37-month lease term (commencing July 1, 2013), subject to ESWCT's option to extend the lease term for two additional 36-month periods. The current base rent under the Lease is \$15,300 per month. Concurrently with the signing of the Lease and pursuant to the terms thereof, ESWCT paid to the Lessor an amount equal to \$155,600, which amount reflects the first month's base rent, the security deposit, the funding required for improvements done by the Lessor at ESWCT's request, and pre-paid rent. The amount will be credited against monthly base rent payable by ESWCT beginning in January 2014 and each month thereafter, provided that ESWCT shall not have defaulted under the Lease.

The following is a summary of the minimum annual lease payments for the Pennsylvania and San Diego leases:

<u>Year Ending December 31,</u>	<u>Amount</u>
2013 (excluding the six months ended June 30, 2013)	\$ 182,295
2014	242,344
2015	372,935
2016	279,799
2017	180,990
2018	30,165
<u>Total</u>	<u>\$ 1,288,528</u>

### LEGAL MATTERS

From time to time, the Company may be involved in a variety of claims, suits, investigations and proceedings arising from the ordinary course of our business, collections claims, breach of contract claims, labor and employment claims, tax and other matters. Although claims, suits, investigations and proceedings are inherently uncertain and their results cannot be predicted with certainty, ESW believes that the resolution of current pending matters will not have a material adverse effect on its business, consolidated financial position, results of operations or cash flow. Regardless of the outcome, litigation can have an adverse impact on ESW because of legal costs, diversion of management resources and other factors.

The Company is pursuing a lawsuit in New York for collection of unpaid invoices related to goods delivered to a former distributor. The Company was notified of a revised claim filed in the Ontario, Canada Superior Court of Justice on a dispute with a past vendor of ESWC, this claim was previously deemed settled, due to inaction by the vendor. That motion is pending: the Court has not ruled upon it. The Company cannot predict the outcome of this matter at this time.

The Company is also exposed to contingencies on its various warranty programs related to the products produced by TFI and ESWCT. The Company has recorded a provision for these as disclosed in Note 2; however, the actual amount of loss could be materially different.

### RECENTLY ISSUED ACCOUNTING STANDARDS AND RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

There are no recently adopted accounting pronouncements that impact the Company's financial statements.

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

## **SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES**

ESW's significant accounting policies are summarized in Note 2 to the consolidated condensed financial statements included in its quarterly reports and its 2012 Annual Report to Shareholders. In preparing the consolidated condensed financial statements, we make estimates and assumptions that affect the expected amounts of assets and liabilities and disclosure of contingent assets and liabilities. We apply our accounting policies on a consistent basis. As circumstances change, they are considered in our estimates and judgments, and future changes in circumstances could result in changes in amounts at which assets and liabilities are recorded.

## **FOREIGN CURRENCY TRANSACTIONS**

The functional currency of the Company and its foreign subsidiaries is the U.S. dollar. All of the Company's revenue and materials purchased from suppliers are denominated in or linked to the U.S. dollar. Transactions denominated in currencies other than a functional currency are converted to the functional currency on the transaction date, and any resulting assets or liabilities are further translated at each reporting date and at settlement. Gains and losses recognized upon such translations are included within foreign exchange gain (loss) in the unaudited consolidated condensed statements of operations and comprehensive loss.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

ESW is exposed to financial market risks, including changes in currency exchange rates and interest rates. The Company has foreign currency exposures at its foreign operations related to buying and selling currencies other than the local currencies. The risk under these interest rate and foreign currency exchange agreement is not considered to be significant.

#### **FOREIGN EXCHANGE RISK**

ESW's exposure to foreign currency translation gains and losses also arises from the translation of the assets and liabilities of its subsidiaries to U.S. dollars during consolidation. These risks have been significantly mitigated by the move of ESW's manufacturing operations to Pennsylvania, USA.

In the consolidated condensed statements of operations and comprehensive loss for the six month period ended June 30, 2013, ESW has recognized a translation loss of \$11,180 as compared to a loss of \$43,043 for the six month period ended June 30, 2012. For the three month period ended June 30, 2013 and 2012, ESW has recognized a translation loss of \$3,068 and \$11,612 respectively, the losses are a result of exchange rate differences between the U.S. dollar and the Canadian dollar.

#### **INTEREST RATE RISK**

ESW currently has no variable-rate long-term debt that exposes ESW to interest rate risk.



## ITEM 4. CONTROLS AND PROCEDURES

### (a) EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURE

#### **EVALUATION OF THE COMPANY'S DISCLOSURE AND INTERNAL CONTROLS**

The Company evaluated the effectiveness of the design and operation of its "disclosure controls and procedures" as of the end of the period covered by this report. This evaluation was done with the participation of management, under the supervision of the Executive Chairman ("EC") and Chief Financial Officer ("CFO").

#### **LIMITATIONS ON THE EFFECTIVENESS OF CONTROLS**

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

#### **CONCLUSIONS**

Based on our evaluation, the EC and CFO concluded that the registrant's disclosures, controls and procedures are effective to ensure that information required to be disclosed in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms.

### (c) CHANGES IN INTERNAL CONTROLS

Not applicable.

## **PART II OTHER INFORMATION**

### **ITEM 1A. RISK FACTORS**

In evaluating an investment in our common stock, investors should consider carefully, among other things, the risk factors previously disclosed in Part I, Item 1 of our Annual Report on Form 10-K for the year ended December 31, 2012, as well as the information contained in this report and our other reports and registration statements filed with the Securities and Exchange Commission.

### **ITEM 5. OTHER INFORMATION**

None.

## ITEM 6. EXHIBITS

### EXHIBITS:

- 3.1 Articles of Amendment to the Articles of Incorporation of Environmental Solutions Worldwide, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on May 24, 2013)
- 4.1 Form of Senior Secured Promissory Note issued on April 23, 2013 by Environmental Solutions Worldwide, Inc. in favor of the Senior Secured Lenders (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on April 29, 2013)
- 4.2 Form of Senior Secured Promissory Note issued on June 27, 2013 by Environmental Solutions Worldwide, Inc. in favor of the Senior Secured Lenders (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on July 1, 2013)
- 10.1 Asset Purchase Agreement, dated April 1, 2013, by and between David P. Stapleton, as the receiver for Cleaire Advanced Emission Controls, LLC, and Environmental Solutions Worldwide, Inc. (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013)
- 31.1\* Certification of Executive Chairman pursuant to the Sarbanes-Oxley Act of 2002.
- 31.2\* Certification of Chief Financial Officer, pursuant to the Sarbanes-Oxley Act of 2002.
- 32.1\* Certification pursuant to 18 U.S.C. Section 1350, as amended pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2\* Certification pursuant to 18 U.S.C. Section 1350, as amended pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99.1 Temporary Hardship Exemption Provided by Rule 201
- 101.ins\* XBRL Instance
- 101.xsd\* XBRL Schema
- 101.cal\* XBRL Calculation
- 101.def\* XBRL Definition
- 101.lab\* XBRL Label
- 101.pre\* XBRL Presentation

\* Furnished herewith..

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

DATED: AUGUST 21, 2013  
Montgomeryville, PA, USA

**ENVIRONMENTAL SOLUTIONS WORLDWIDE, INC.**

BY: /S/ MARK YUNG  
MARK YUNG  
EXECUTIVE CHAIRMAN

/S/ PRAVEEN NAIR  
PRAVEEN NAIR  
CHIEF FINANCIAL OFFICER

**EXHIBIT 31.1**

**CERTIFICATION PURSUANT TO SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, Mark Yung, certify that:

1. I have reviewed this amended quarterly report on Form 10-Q/A of Environmental Solutions Worldwide, Inc;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying Officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f) for the Registrant and we have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) Designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance the generally accepted accounting principles;
  - c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's second fiscal quarter of 2013 that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent function):
  - a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls.

DATE: AUGUST 21, 2013

BY: /S/ MARK YUNG  
MARK YUNG  
EXECUTIVE CHAIRMAN

**EXHIBIT 31.2**

**CERTIFICATION PURSUANT TO SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, Praveen Nair, certify that:

1. I have reviewed this amended quarterly report on Form 10-Q/A of Environmental Solutions Worldwide, Inc;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying Officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f) for the Registrant and we have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) Designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance the generally accepted accounting principles;
  - c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's second fiscal quarter of 2013 that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent function):
  - a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls.

DATE: AUGUST 21, 2013

/S/ PRAVEEN NAIR  
PRAVEEN NAIR  
CHIEF FINANCIAL OFFICER

**EXHIBIT 32.1**

**CERTIFICATION PURSUANT TO 18 U. S. C. SECTION 1350 AS  
ADOPTED PURSUANT TO SECTION 906 OF**

**THE SARBANES-OXLEY ACT OF 2002**

In connection with the Amended Quarterly Report on Form 10-Q/A of Environmental Solutions Worldwide, Inc. (the "Company") for the quarterly period June 30, 2013 (the "Report"), Mark Yung, Executive Chairman of the Company, hereby certify, pursuant to 18 U. S. C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

DATE: AUGUST 21, 2013

BY: /S/ MARK YUNG

MARK YUNG

EXECUTIVE CHAIRMAN

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Environmental Solutions Worldwide, Inc. and will be retained by Environmental Solutions Worldwide, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO 18 U. S. C. SECTION 1350 AS  
ADOPTED PURSUANT TO SECTION 906 OF**

**THE SARBANES-OXLEY ACT OF 2002**

In connection with the Amended Quarterly Report on Form 10-Q/A of Environmental Solutions Worldwide, Inc. (the "Company") for the quarterly period June 30, 2013 (the "Report"), Praveen Nair, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U. S. C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

DATE: AUGUST 21, 2013

/S/ PRAVEEN NAIR  
PRAVEEN NAIR  
CHIEF FINANCIAL OFFICER

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Environmental Solutions Worldwide, Inc. and will be retained by Environmental Solutions Worldwide, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.