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Magnolia Solar Corp

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

Form 10-K

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2013
OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number 333-151633

Magnolia Solar Corporation
(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction of incorporation or organization)

39-2075693
(I.R.S. Employer Identification No.)

54 Cummings Park, Suite 316
Woburn, MA
(Address of principal executive offices)

01801
(Zip Code)

Registrant's telephone number, including area code **(781) 497-2900**

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, par value \$0.001 per share

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 (Do not check if a smaller reporting company) Smaller reporting company

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common stock was last sold as of the last business day of the registrant's most recently completed second fiscal quarter

was \$410,930.

As of March 24, 2014, there were 34,978,955 shares of common stock, par value \$0.001 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: NONE

MAGNOLIA SOLAR CORPORATION AND SUBSIDIARIES

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PART I

Forward-Looking Statements

Forward-looking statements in this report, including without limitation, statements related to our plans, strategies, objectives, expectations, intentions and adequacy of resources, are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Investors are cautioned that such forward-looking statements involve risks and uncertainties including without limitation the following: (i) our plans, strategies, objectives, expectations and intentions are subject to change at any time at our discretion; (ii) our plans and results of operations will be affected by our ability to manage growth; and (iii) other risks and uncertainties indicated from time to time in our filings with the Securities and Exchange Commission (“SEC”).

In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “should,” “could,” “expects,” “plans,” “intends,” “anticipates,” “believes,” “estimates,” “predicts,” “potential,” or “continue” or the negative of such terms or other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of such statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We are under no duty to update any of the forward-looking statements after the date of this report.

As used in this Annual Report, the terms “we,” “us,” “our,” and “Magnolia” mean Magnolia Solar Corporation, a Nevada corporation and our subsidiary Magnolia Solar, Inc., a Delaware corporation, unless otherwise indicated.

Factors that might affect our forward-looking statements include, among other things:

- overall economic and business conditions;
- competitive factors in the industries in which we compete;
- changes in tax requirements (including tax rate changes, new tax laws and revised tax law interpretations);
- the outcome of litigation and governmental proceedings;
- interest rate fluctuations and other changes in borrowing costs;
- other capital market conditions, including availability of funding sources; and
- changes in government regulations.

Item 1. Business.

Overview

Magnolia Solar Corporation, through its wholly-owned subsidiary, Magnolia Solar, Inc., is principally engaged in the development and commercialization of its nanotechnology-based, high-efficiency, thin-film technology that can be deposited on a variety of substrates, including glass and flexible structures. This technology has the potential to capture a larger part of the solar spectrum to produce high-efficiency solar cells, and incorporates a unique nanostructure-based antireflection coating technology to possibly further increase the solar cell's performance. If these goals are met, there is the potential of significantly reducing the cost per watt.

Our research and development effort is located at the Albany Nanotech Center of the College of Nanoscale Science and Engineering (CNSE) in Albany. We are also part of the Photovoltaic Manufacturing Initiative (PVMI) funded by the U.S. Department of Energy under the Sun Shot program. In addition, State of New York and the New York State Energy Research and Development Agency (NYSERDA) have invested approximately \$100 million to build a new facility for the Photovoltaic Manufacturing Initiative next generation Copper Indium Selenide (CIGS) based manufacturing process development. Due to our membership in PVMI, we also have access for our research and development activity to the CNSE's Solar Energy Development Center in Halfmoon, New York. This is a 100 kilowatt prototyping facility which we believe is ideal for our development effort. We believe that our use of this facility for development presently eliminates the capital needed to develop a dedicated facility to refine, evaluate, and finalize our technology program.

We are a development stage company and to date have not generated material revenues or earnings as a result of our activities.

Corporate History

We were incorporated as a Nevada corporation on November 19, 2007 with a mission of becoming a leading resource for an individual or family's relocation/moving needs. On December 31, 2009, we entered into an Agreement of Merger and Plan of

Reorganization (the "Merger Agreement") with Magnolia Solar, Inc., a privately-held Delaware corporation ("Magnolia Solar"), and Magnolia Solar Acquisition Corp., our newly-formed, wholly-owned Delaware subsidiary ("Acquisition Sub"). Upon the closing of the transaction contemplated by the Merger Agreement, Acquisition Sub merged with and into Magnolia Solar, and Magnolia Solar, as the surviving corporation, became our wholly-owned subsidiary (the "Reverse Merger"). Immediately following the Reverse Merger we transferred all of our pre-Reverse Merger assets and liabilities to our wholly-owned subsidiary Mobilis Relocation Services Holdings, Inc. ("SplitCo"). Thereafter, we transferred all of the outstanding capital stock of SplitCo to certain of our stockholders in exchange for the cancellation of 1,500,000 shares of our common stock (the "Split-Off") and we filed a Certificate of Change to our Articles of Incorporation in order to affect a forward split of the number of authorized shares of common stock which we are authorized to issue, and of our issued and outstanding shares in a ratio of 1.3157895:1 (the "Forward Split"). In connection with the merger, our name was changed from "Mobilis Relocation Services Inc." to "Magnolia Solar Corporation" (the "Name Change"). Following the Reverse Merger, Split-Off, Forward Split and Name Change, we discontinued our former business and succeeded to the business of Magnolia Solar as our sole line of business.

Description of Business

Our mission is to commercialize our nanotechnology-based, high efficiency, thin film solar cell technology that can be deposited on glass and other flexible substrates to convert sun's energy to electricity. This photovoltaic (PV) technology has the ability to capture a larger part of the solar spectrum to produce high efficiency solar cells, and incorporates a unique nanostructure-based antireflection coating technology to further increase the solar cell's efficiency thereby reducing the cost per watt.

- We have filed several patents to protect our intellectual property and are adding key technical personnel to validate and commercialize these solar cell technologies. Our goal is to increase our solar cells' efficiency from the present thin film solar cell efficiency of about 11%-13% to those rivaling efficiencies of crystalline photovoltaic cells in a commercial environment at a cost potentially reaching \$0.50 per watt.
- Our technology development is in part supported by various government grants and we have received the following awards to advance the development of our technology:
 - We received our first purchase order for a \$1 million award from the New York State Energy Research and Development Authority ("NYSERDA") for the development of advanced thin-film solar cells using our technology, in partnership with the College of Nanoscale Science and Engineering ("CNSE") at the University of Albany. This work successfully transitioned from the first phase to the next phase and the work on this contract is ongoing at present;
 - We were awarded a contract from the National Aeronautical and Space Administration (NASA) for the development of a quantum-well waveguide technology for solar cell. The work on the NASA contract has been completed. The amount of the award was \$99,999;
 - We were awarded a Phase I Small Business Innovation Research / Small Business Technology Transfer (SBIR/STTR) contract from the U.S. Air Force to study the development of flexible, lightweight, ultra-high efficiency solar cells. The Phase I contract was for \$99,999. Following the work for this contract which demonstrated our approach to simultaneously increase the current and voltage output of photovoltaic devices for space power applications, the U.S. Air Force has extended the contract to Phase II of the SBIR/STTR to demonstrate the technology. The amount of the Phase II award is \$750,000 and the work on this contract is currently underway;
 - We received a second Phase I award from the U.S. Air Force to develop ultra-high efficiency, single junction quantum dot solar cells that can potentially match the efficiency of multiple junction solar cells at significantly lower costs. The contract amount was \$99,999. Following the work on this contract demonstrating our approach to ultra-high efficiency, thin-film solar cells, the U.S. Air Force awarded Magnolia Solar a second Phase II STTR contract to demonstrate the technology. The amount of the Phase II award is \$750,000 and work on this contract is currently under way;
 - We received an innovative product development contract from NYSERDA. The baseline program award is \$250,000. The goal of this contract is to improve the performance of thin film solar cells by incorporating advanced light trapping techniques and nanostructured optical coatings. Work on this contract has been completed.

In addition to these developmental activities, we also benefit from the critical technologies being developed by Magnolia Optical Technologies, Inc. ("Magnolia Optical"), a company controlled by our two executive officers and directors, Ashok Sood and Yash Puri. Magnolia Optical has been at the forefront of pioneering the development of thin film, optical, and advanced solar cell technologies for high efficiency solar cells using nano-materials and technologies to use Ultraviolet, Visible and Infrared part of the electromagnetic spectrum for imaging sensors and solar cell applications for Defense and Terrestrial Application. Magnolia Optical Technologies, Inc., a Delaware Corporation, has been in business since May 2000 and is a government-approved contractor for advanced technology developments. Magnolia Optical has, to date, received over \$13 million funding support from Defense Advanced Research Projects Agency (DARPA) and other Department of Defense (DOD) agencies, NASA and NSF to fund the development of the advanced nanostructure-based technologies for optical and solar cell applications.

We currently license our core technology under development from Magnolia Optical. Under the license, we have been granted an exclusive, fully paid, royalty free, worldwide license to use the intellectual property of Magnolia Optical relating to the design and fabrication of thin-film solar photovoltaic solar cells for the manufacture and sale of thin-film photovoltaic solar cell products and services. In consideration for the license grant, Magnolia Optical shareholders received, after giving effect to the Reverse Merger and Forward Split, 7,130,000 shares of our common stock. The license has an initial term of ten years ending April 30, 2018 and shall automatically continue in effect thereafter unless terminated by either party. The license may be terminated for cause by either party.

Magnolia Technology

We have developed thin-film photovoltaic technology that includes the use of nanotechnology-based components to substantially enhance solar cell efficiency. This technology utilizes higher absorption of the solar spectrum to produce high-efficiency solar cells. Our goal is to increase solar cell efficiency while using lower cost processes to minimize future production costs, with a goal of reaching less than one dollar per watt. We plan to use low-cost substrates for solar cell fabrication that are substantially cheaper than conventional silicon substrates. We plan to use either glass or polymer-based flexible substrates that are low cost and are available in large sizes, thereby bringing down the cost of thin film solar cells compared to those with silicon substrates.

We have filed a series of U.S. utility and provisional patent applications. The utility patent applications claim the benefits of previously filed provisional applications. The utility and provisional patent applications filed over the past year detail a number of photovoltaic solar cell device designs and methods of manufacturing. The technologies related to these patent filings address the fundamental performance limitations in existing thin-film solar cells. The engineering employed in our patent-pending technology is designed to increase the photovoltaic operating voltage while capturing a larger part of the solar spectrum, and the unique nanostructure-based optical coatings minimize reflection losses which enhances the light trapping within the photovoltaic devices. These technologies result in higher solar electric conversion efficiency by increasing both the voltage and current output of thin-film solar cells.

Government funding of some of our research and development efforts imposed certain restrictions on our ability to commercialize results and could grant commercialization rights to the government. In some funding awards, the government is entitled to intellectual property rights arising from the related research. Such rights include a nonexclusive, nontransferable, irrevocable, paid-up license to practice or have practiced each subject invention developed under an award throughout the world by or on behalf of the government. Other rights include the right to require us to grant a license to the developed technology or products to a third party or, in some cases, if we refuse, the government may grant the license itself, if the government determines that action is necessary because we fail to achieve practical application of the technology, because action is necessary to alleviate health or safety needs, to meet requirements of federal regulations, or to give the United States industry preference. Accepting government funding can also require that manufacturing of products developed with federal funding be conducted in the United States.

Industry Overview and Market Opportunity

Solar electric power or photovoltaic (PV) technology is the conversion of sunlight directly into electricity. The solar cells available today use semiconducting materials (similar to those used in computer chips and flat panel displays) such as silicon. These cells are the basic building blocks of complete systems. To provide useful amounts of power, the cells are wired together in varying numbers to create solar modules (also called solar panels).

A typical rooftop residential system may have one or two dozen modules. PV converts sunlight into electricity, with no moving parts, consuming no fuel, and creating no pollution. It is a distributed energy resource that can improve grid reliability, lower distribution and transmission costs, and be sited at the point of use with minimal or no environmental impact. In 2012, the worldwide solar PV module production was slightly below 30 GW. About 85% of these are made from silicon.

Solar Cell Technology Overview

The solar market consists of two major technology segments—crystalline silicon solar cells and thin film solar cells. This section provides a brief overview of the crystalline silicon solar cells and thin film solar cells on the market today.

Crystalline Silicon Solar Cells

The solar photovoltaic market is dominated by the crystalline silicon (c-Si) technology that was developed in the '60s for the space race and then converted for commercial use during the energy crunch of the '70s. Today, about 85 percent of solar cells and solar panels are made with silicon wafers. There are several different types of silicon that are being used in solar cell and panel production including:

- Single crystal silicon
- Poly-crystalline cells
- Ribbon silicon cells

One of the serious limitations faced by manufacturers of crystalline silicon based solar cells is the shortage of raw silicon material. These companies are competing against microprocessor and electronic circuit device manufacturer for silicon wafers. Even though there are efforts underway to expand the silicon output, it does appear that it will be many years before enough capacity is in place for supply to match demand in the marketplace. At the commercial level, the silicon solar cell's quality depends on the efficiency which ranges from 15 to 17 percent with higher performance obtained by using higher quality crystalline silicon.

Thin Film Solar Cells

Thin film solar cells are gaining popularity owing to their ability to minimize the usage of semiconductor materials and thus potentially lower the cost of photovoltaic modules. There are several different thin film technologies that are under development for both the military satellite market and the terrestrial market. The varieties of thin film solar technologies undergoing commercialization include:

- CIGS cells
- CdTe/CdS cells
- Amorphous-silicon thin film solar cells
- Multi-junction GaAs cells for space power applications

There are second-generation, thin-film technologies that are under development that can provide higher solar cell efficiency. Thin-film solar cell technologies have steadily gained market share from the incumbent crystalline silicon producers owing to low manufacturing cost.

Magnolia Solar Cell and Anti-Reflection Coating Approach

Energetic radiation from the sun, reaching the Earth's surface, includes ultra-violet, infrared and visible light. Our thin film solar cell design is being designed to enhance absorption in the UV spectrum and will be able to provide electricity more efficiently in hazy weather and very hot days using IR energy. We are developing high-efficiency, thin-film solar cells employing nanostructured-based materials that can be used for producing high performance solar panels. Our proprietary technology incorporates nano-materials and technologies that were developed under sponsorship by NYSERDA, DARPA, NASA, and the US Department of Defense. We utilize a nanostructure-based approach in the development of high-efficiency thin film solar cells. Our technology is designed to permit absorption across a broad spectrum of light.

Optical reflection losses limit the performance of a wide variety of photonic and photovoltaic devices. We have demonstrated nanostructured optical coatings that can reduce reflection losses and enhance the performance of solar cells. Nanostructured optical coatings can be applied to the top surface of semiconductor solar cells to reduce reflection losses over a wide range of wavelengths and incident angles. Anti-reflection (AR) coatings are an indispensable component of solar cell devices to reduce or suppress reflection losses, thus increasing the amount of light entering the solar cells device and enhancing the power conversion efficiency. We demonstrated antireflection coatings comprised of step-graded, nanostructured SiO₂ have been shown to significantly increase the transmittance through the optical glass windows. Our double-sided, nanostructured SiO₂ coatings outperform conventional MgF₂ coatings, achieving average transmittance values in excess of 98% over a broad spectrum and wide range of incident angles. The demonstrated ultra-high broadband performance of nanostructured SiO₂ anti-reflection coatings can benefit high performance single- and multi-junction solar cells.

Light trapping can dramatically improve solar cell performance by increasing the optical path length of photons within the thin film absorber layers. To further enhance the performance of the thin film solar cell, the bottom contact should also reflect unabsorbed light back into the CIGS thin film solar cell. Internal reflectors and light trapping structures on the underside of a semiconductor structure can improve the performance of a variety of photovoltaic devices and thin-film solar cells. By incorporating a high-performance back reflector, unabsorbed photons can be recycled and scattered back into the active region of a solar cell device. We are developing a conductive omnidirectional back reflector employing nanostructured indium tin oxide (ITO). This is intended to diffuse the light as well, maximize the optical path length in the absorber layers.

We are developing next generation nanostructure based CIGS thin film solar cells. Our cell design takes advantage of quantum structures such as quantum dots to enhance the solar cell efficiency beyond what is achievable today in CIGS thin film solar cells. Conventional solar cell modules are both heavy and rigid, typically employing fragile silicon wafers and thick panes of protective glass. While these panels are suitable for fixed installations on rooftops and fields, flexible photovoltaic modules can provide a

mobile source of electrical power for a wide variety of emerging applications in both terrestrial and space environments. We are developing flexible solar cell technologies for mobile and portable power applications. Our goal is to demonstrate solar cell efficiency in flexible CIGS greater than 20 percent.

Intellectual Property

Our success depends, in part, on our ability to maintain and protect our proprietary technology and to conduct our business without infringing on the proprietary rights of others. We rely primarily on a combination of patents and trade secrets, as well as associate and third party confidentiality agreements, to safeguard our intellectual property. Since January 2010 we have filed several patent applications to protect inventions arising from our research and development, and are currently pursuing patent applications in the U.S. Our patent applications and any future patent applications might not result in a patent being issued with the scope of the claims we seek, or at all, and any patents we may receive may be challenged, invalidated, or declared unenforceable.

With respect to proprietary know-how that is not patentable and processes for which patents are difficult to enforce, we rely on, among other things, trade secret protection and confidentiality agreements to safeguard our interests. We believe that many elements of our PV technology involve proprietary know-how, technology, or data that are not covered by patents or patent applications, including technical processes, equipment designs, algorithms, and procedures. We have taken security measures to protect these elements. All of our research and development personnel have entered into confidentiality and proprietary information agreements with us. We also require our business partners to enter into confidentiality agreements before we disclose any sensitive aspects of our technology or business plans.

We have not been subject to any material intellectual property claims.

Competition

We are currently in the development stage and do not sell a finished product. Since our end product will provide an energy source to convert the renewable solar energy to electricity, we will face competition from all forms of renewable energy technologies, including wind, hydropower, geothermal, biomass, and tidal technologies, as well as from other approaches to convert sun light to electricity. There is intense competition in the renewable energy market, specifically in the solar photovoltaic sector. There are already many established companies that sell solar cells and modules. During 2013, we estimate that there were several hundred manufacturers of solar cells and modules with aggregate installed capacity exceeding global demand. This has resulted in a significant drop in the prices of solar modules. One of the principal drivers of competition is price per watt, which is a function of the underlying technology and production capacity. In addition, some sovereign nations actively support competitors located in those countries. This allows competitors from those countries to sometimes price finished products below their costs. While some countries are taking steps to offset these subsidies by imposing tariffs on imports, the global competition remains very intense. Success in this highly competitive environment will depend on attaining high efficiencies at low costs, without the use of sustained government subsidies.

Customers

We are still in the development stage and do not presently have any customers. We have used samples of anti-reflection coatings for evaluation. We continue to pursue establishing relationships with various companies and explore collaborations with them. As we exit the development stage, which is expected to occur in 2015, and commence the production of our solar cells and/or anti-reflective coatings, we expect to target federal civilian and military agencies and commercial customers including large corporations, non-governmental organizations, universities and solar powered electric generating stations.

Environmental, Health and Safety Regulations

We will use, generate and discharge toxic, volatile or otherwise hazardous chemicals and wastes in our manufacturing activities. We are subject to a variety of federal, state and local governmental laws and regulations related to the purchase, storage, use and disposal of hazardous materials. We are also subject to occupational health and safety regulations designed to protect worker health and safety from injuries and adverse health effects from exposure to hazardous chemicals and working conditions. If we fail to comply with present or future environmental laws and regulations, we could be subject to fines, suspension of production or a cessation of operations. In addition, under some federal, state and local statutes and regulations, a governmental agency may seek recovery and response costs from operators of property where releases of hazardous substances have occurred or are ongoing, even if the operator was not responsible for the release or otherwise was not at fault.

Any failure by us to control the use of, or to restrict adequately the discharge of, hazardous substances could subject us to substantial financial liabilities, operational interruptions and adverse publicity, any of which could materially and adversely affect our business, prospects, results of operations and financial condition.

Solar Energy Industry

We believe that economic and national security issues, technological advances, environmental regulations seeking to limit emissions by fossil fuel, air pollution regulations restricting the release of greenhouse gasses, aging electricity transmission infrastructure and depletion and limited supply of fossil fuels, has made reliance on traditional sources of fuel for generating electricity less attractive. Government policies, in the form of both regulation and incentives, have accelerated the adoption of solar technologies by businesses and consumers. For example, in the U.S., California now requires that 33% of the retail demand for electricity provided by utilities must be procured from renewable energy sources by 2020.

Government Subsidies and Incentives

Various subsidies and tax incentive programs exist at the federal and state level to encourage the adoption of solar power including capital cost rebates, performance-based incentives, feed-in tariffs, tax credits and net metering. Capital cost rebates provide funds to customers based on the cost of size of a customer's solar power system. Performance-based incentives provide funding to a customer based on the energy produced by their solar system. Under a feed-in tariff subsidy, the government sets prices that regulated utilities are required to pay for renewable electricity generated by end-users. The prices are set above market rates and may be differentiated based on system size or application. Feed-in tariffs pay customers for solar power system generation based on kilowatt-hours produced, at a rate generally guaranteed for a period of time. Tax credits reduce a customer's taxes at the time the taxes are due. Under net metering programs, a customer can generate more energy than used, during which periods the electricity meter will spin backwards. During these periods, the customer "lends" electricity to the grid, retrieving an equal amount of power at a later time. Net metering programs enable end-users to sell excess solar electricity to their local utility in exchange for a credit against their utility bills. Net metering programs are usually combined with rebates, and do not provide cash payments if delivered solar electricity exceeds their utility bills. In addition, several states have adopted renewable portfolio standards, which mandate that a certain portion of electricity delivered to customers come from a set of eligible renewable energy resources. Under a renewable portfolio standard, the government requires regulated utilities to supply a portion of their total electricity in the form of renewable electricity. Some programs further specify that a portion of the renewable energy quota must be from solar electricity. Since we are still in the development stage, and our products are not yet ready to benefit from any of these programs.

Despite the benefits of solar power, there are also certain risks and challenges faced by solar power. Solar power is heavily dependent on government subsidies to promote acceptance by mass markets. We believe that the near-term growth in the solar energy industry depends significantly on the availability and size of these government subsidies and on the ability of the industry to reduce the cost of generating solar electricity. The market for solar energy products is, and will continue to be, heavily dependent on public policies that support growth of solar energy. There can be no assurances that such policies will continue. Decrease in the level of rebates, incentives or other governmental support for solar energy would have an adverse effect on our ability to sell our products.

Employees

As of March 24, 2014, we had 4 part-time employees. Three of these employees work in technology development and one employee primarily performs administrative functions.

Item 1A. Risk Factors.

Risk Factors

There are numerous and varied risks, known and unknown, that may prevent us from achieving our goals. If any of these risks actually occur, our business, prospects, financial condition or results of operation may be materially adversely affected. In such case, the trading price of our common stock could decline and investors could lose all or part of their investment.

Risks Related to our Business

We have a limited operating history upon which an evaluation of our prospects can be made. We may never achieve profitability.

Our operating subsidiary, Magnolia Solar, was organized on January 8, 2008, and has had only limited operations since our inception upon which to evaluate our business prospects. As a result, investors do not have access to the same type of information in assessing their proposed investment as would be available to purchasers in a company with a history of prior operations. Although the technology for solar cells we are commercializing has been developed by Magnolia Optical, a related company which has received federal funding for several projects over the last thirteen years, we face all the risks inherent in a new business, including the expenses, difficulties, complications and delays frequently encountered in connection with conducting operations, including capital requirements and management's potential underestimation of initial and ongoing costs. We also face the risk that we may not be able to effectively implement our business plan. If we are not effective in addressing these risks, we will not operate profitably and we may not have adequate working capital to meet our obligations as they become due.

We have a history of losses and can provide no assurance of our future operating results.

We are a development stage company and may not succeed in commercializing any products which will generate revenues. We have experienced net losses and negative cash flows from operating activities since inception and we expect such losses and negative cash flows to continue in the foreseeable future. As of December 31, 2013 and 2012, we had working capital deficit of \$(2,505,739) and \$(2,380,702) respectively, and stockholders' deficit of \$(2,350,321) and \$(2,188,832), respectively. For the years ended December 31, 2013 and 2012, we incurred net losses of \$(377,149) and \$(926,571). We may never achieve profitability. The opinion of our independent registered public accountants on our audited financial statements as of and for the year ended December 31, 2013 contains an explanatory paragraph regarding substantial doubt about our ability to continue as a going concern. Our ability to continue as a going concern is dependent upon raising capital from financing transactions.

We have incurred substantial indebtedness.

We have Original Issue Discount Notes in the aggregate principal of \$2,400,000 that mature on December 31, 2014. Such indebtedness is secured by substantially all of our assets. If we were to default on our indebtedness, then holders of the notes may foreclose on the debt and seize our assets which may force us to suspend or cease operations altogether. We may incur significant additional indebtedness in the future. If we incur a substantial amount of additional indebtedness, the related risks that we face could become more significant.

We will need significant additional capital, which we may be unable to obtain.

We have very limited funds. Our ultimate success may depend upon our ability to raise additional capital. There can be no assurance that additional funds will be available when needed from any source or, if available, will be available on terms that are acceptable to us.

We may be required to pursue sources of additional capital through various means, including government grants, joint venture projects and debt or equity financings. Future financings through equity investments are likely to be dilutive to existing stockholders. Also, the terms of securities we may issue in future capital transactions may be more favorable for our new investors. Newly issued securities may include preferences, superior voting rights, the issuance of warrants or other derivative securities, and the issuances of incentive awards under equity employee incentive plans, which may have additional dilutive effects. Further, we may incur substantial costs in pursuing future capital and/or financing, including investment banking fees, legal fees, accounting fees, printing and distribution expenses and other costs. We may also be required to recognize non-cash expenses in connection with certain securities we may issue, such as convertible notes and warrants, which will adversely impact our financial condition.

Our ability to obtain needed financing may be impaired by such factors as the capital markets, both generally and specifically in the renewable energy industry, and the possibility that we may not be profitable during the early years due to spending on the process development for our technology, which could impact the availability or cost of future financings. If the amount of capital we are able to raise from financing activities is not sufficient to satisfy our capital needs, even to the extent that we reduce our operations accordingly, we may be required to cease operations.

Our products have never been sold on a commercial basis, and we do not know whether they will be accepted by the market.

According to the BP Statistical Review of World Energy published in 2013, the installed solar PV capacity was about 100 Gigawatt hours at the end of 2012. Total global production of electricity was about 22,504 terawatt hours in 2012. Thus, at the end of 2012 less than 1 percent electric power came from solar photovoltaic sources. Even with many advances in the solar photovoltaic technology, adoption of solar photovoltaic power technology by energy users remains low and the total solar electricity production capacity remains well below one percent of the world consumption of electricity. Thus, the solar energy market is at a relatively early stage of development and the extent to which solar modules will be widely adopted is uncertain. If our products are not accepted by the market, our business, prospects, results of operations and financial condition will suffer. Moreover, demand for solar modules in our targeted markets may not develop or may develop to a lesser extent than we anticipate. The development of a successful market for our proposed products and our ability to sell them at a lower price per watt may be affected by a number of factors, many of which are beyond our control, including, but not limited to:

- failure to produce solar power products that compete favorably against other solar power products on the basis of cost, quality and performance;
- competition from conventional energy sources and alternative distributed generation technologies, such as wind energy;
- failure to develop and maintain successful relationships with suppliers, distributors and strategic partners; and
- customer acceptance of our products.

If our proposed products fail to gain sufficient market acceptance, our business plans, prospects, results of operations and financial condition will suffer.

Our ability to manufacture and distribute commercially viable solar cells is unproven, which could have a detrimental effect on our ability to generate or sustain revenues.

The technologies we will use to manufacture solar cells have never been utilized on a commercial basis. Our technology, while intended to create a highly efficient solar cells may never achieve technical or commercial viability. All of the tests conducted to date by us with respect to the technology have been performed in a limited scale environment and the same or similar results may not be obtainable at competitive costs on a large-scale commercial basis. We have never utilized technology under the conditions or in the volumes that will be required for us to be profitable and cannot predict all of the difficulties that may arise. Accordingly, our technology may not perform successfully on a commercial basis and may never generate any revenues or be profitable.

If our strategy is unsuccessful, we will not be profitable and our stockholders could lose their investment.

There is no guarantee that our strategy will be successful or profitable. If our strategy is unsuccessful, we may fail to meet our objectives and not realize the revenues or profits from the business we pursue, which may cause our value to decrease, thereby potentially causing our stockholders to lose their investment.

We may not be able to effectively control and manage our growth, which would negatively impact our operations.

If our business and markets grow and develop it will be necessary for us to finance and manage expansion in an orderly fashion. We may face challenges in managing expansion of manufacturing operations to meet projected demand. Such eventualities will increase demands on our existing management, workforce and facilities. Failure to satisfy increased demands could interrupt or adversely affect our operations and cause administrative inefficiencies.

We may be unable to complete our development, manufacturing and commercialization plans, and the failure to do so will significantly harm our business, prospects, results of operations and financial condition.

Commercializing our planned solar modules and processes depends on a number of factors, including but not limited to:

- further product and manufacturing process development;
- development of certain critical tools and production capabilities;
- development and management of our supply chain;

- development and management of our distribution channels; and
- demonstration of efficiencies that will make our products attractively priced;

We do not have any history in carrying out any of the foregoing tasks. The current management team has expertise in technology/product development. We plan to hire people with expertise in the abovementioned areas to complement the management team, however our ability to do so will depend on our ability to raise additional capital for which there is no certain assurance. As such, we cannot assure investors that the strategies we intend to employ will enable us to support the large-scale manufacturing of commercially desirable solar modules.

We are developing our technology in part from funds from agencies of the U.S. government, and as a result, we are subject to a number of rules and regulations, and our business could be adversely affected by an audit by the U.S. government if it were to identify errors or a failure to comply with regulations.

We have been funded in part to develop our solar power technology by various U.S. government agencies. In connection with these funding contracts, we must comply with and are affected by laws and regulations relating to the award, administration, and performance of U.S. government contracts, which may impose added costs on our business. We are expected to perform in compliance with a vast array of federal laws and regulations, including, without limitation, the Federal Acquisition Regulation, the Truth in Negotiations Act, the Federal False Claims Act, the Anti-Kickback Act of 1986, the Trade Agreements Act, the Buy American Act, the Procurement Integrity Act, and the Davis Bacon Act. A violation of specific laws and regulations, even if prohibited by our policies, could result in the imposition of fines and penalties, reductions of the value of our contracts, contract modifications or termination, or suspension or debarment from government contracting for a period of time.

In some instances, these laws and regulations impose terms or rights that are more favorable to the government than those typically available to commercial parties in negotiated transactions. For example, the U.S. government may terminate any of our government contracts either at its convenience or for default based on performance. A termination arising out of our default may expose us to liability and have a material adverse effect on our ability to compete for future contracts.

U.S. government agencies may audit and investigate government contractors. These agencies review a contractor's performance under its contracts, cost structure, and compliance with applicable laws, regulations, and standards. If an audit or investigation uncovers improper or illegal activities, we may be subject to civil or criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines, and suspension or prohibition from doing business with the U.S. government. In addition, we could suffer reputational harm if allegations of impropriety were made against us.

Environmental obligations and liabilities could have a substantial negative impact on our financial condition, cash flows and profitability.

Our end products have no toxic materials. However, we use chemicals in the manufacturing process that are widely used by the semiconductor and other industries in producing our finished product. Therefore, we are subject to a variety of federal, state, local and foreign laws and regulations relating to the protection of the environment, including those governing the use, handling, generation, processing, storage, transportation and disposal of, or human exposure to, hazardous and toxic materials, the discharge of pollutants into the air and water, and occupational health and safety. We are also subject to environmental laws that allow regulatory authorities to compel, or seek reimbursement for, cleanup of environmental contamination at sites now or formerly owned or operated by us and at facilities where our waste is or has been disposed. We may incur significant costs and capital expenditures in complying with these laws and regulations. In addition, violations of, or liabilities under, environmental laws or permits may result in restrictions being imposed on our operating activities or in our being subjected to substantial fines, penalties, criminal proceedings, third party property damage or personal injury claims, cleanup costs or other costs. Also, future developments such as more aggressive enforcement policies, the implementation of new, more stringent laws and regulations, or the discovery of presently unknown environmental conditions or non-compliance may require expenditures that could have a material adverse effect on our business, prospects, results of operations and financial condition. Further, greenhouse gas emissions have increasingly become the subject of international, national, state and local attention. Although fixture regulations could potentially lead to an increased use of alternative energy, there can be no guarantee that such future regulations will encourage solar technology. Given our limited history of operations, it is difficult to predict future environmental expenses.

We are dependent upon key personnel whose loss may adversely impact our business.

We rely heavily on the expertise, experience and continued services of our senior management, especially Dr. Ashok K. Sood, our President and Chief Executive Officer and Dr. Yash R. Puri, our Executive Vice President and Chief Financial Officer. The loss of either Dr. Sood or Dr. Puri, or an inability to attract or retain other key individuals, could materially adversely affect us. We seek to compensate and motivate our executives, as well as other employees, through competitive salaries and bonus plans, but there can be no assurance that these programs will allow us to retain key employees or hire new key employees. Although we have employment contracts with Dr. Sood and Dr. Puri, if either left us, we could face substantial difficulty in hiring a qualified successor and could experience a loss in productivity while any such successor obtains the necessary training and experience.

We may not be able to effectively control and manage our growth.

Our strategy envisions a period of potentially rapid growth. We currently maintain nominal administrative and personnel capacity due to the startup nature of our business, and our expected growth may impose a significant burden on our future planned administrative and operational resources. The growth of our business may require significant investments of capital and increased demands on our management, workforce and facilities. We will be required to substantially expand our administrative and operational resources and attract, train, manage and retain qualified management and other personnel. Failure to do so or satisfy such increased demands would interrupt or would have a material adverse effect on our business and results of operations.

Risks Related to Our Industry

The reduction or elimination of government subsidies and economic incentives for on-grid solar electricity applications could reduce demand for our solar modules and harm our business plans.

The reduction, elimination or expiration of government subsidies and economic incentives for solar electricity could result in the diminished competitiveness of solar energy relative to conventional and non-solar renewable sources of energy, which would negatively affect the growth of the solar energy industry overall. We believe that the near-term growth of the market for on-grid applications, where solar energy is used to supplement the electricity a consumer purchases from the utility network, depends significantly on the availability and size of government and economic incentives. Currently the cost of solar electricity substantially exceeds the retail price of electricity in every significant market in the world. As a result, federal, state and local governmental bodies in many countries have provided subsidies in the form of tariffs, rebates, tax write-offs and other incentives to end-users, distributors, systems integrators and manufacturers of photovoltaic products. Many of these government incentives could expire, phase-out over time, exhaust the allocated funding or require renewal by the applicable authority. Even though the price of electricity from conventional sources continues to rise, a reduction, elimination or expiration of government subsidies and economic incentives for solar electricity could result in the diminished competitiveness of solar energy, which would in turn hurt our sales and financial condition.

Technological changes in the solar power industry could render our solar power products uncompetitive or obsolete, which could reduce our future market share.

The solar power market is characterized by continually changing technology requiring improved features, such as increased efficiency, higher power output and lower price. Our failure to further refine our technology and develop and introduce new solar power products could cause our products to become uncompetitive or obsolete, which could reduce any future market share. The solar power industry is rapidly evolving and competitive. We will need to invest significant financial resources in research and development to keep pace with technological advances in the solar power industry and to effectively compete in the future. A variety of competing solar power technologies are under development by other companies that could result in lower manufacturing costs or higher product performance than those expected for our solar power products. Our development efforts may be rendered obsolete by the technological advances of others, and other technologies may prove more advantageous for the commercialization of solar power products.

If solar power technology is not suitable for widespread adoption or sufficient demand for solar power products does not develop or takes longer to develop than we anticipate, we would be unable to generate enough revenues in the future to achieve or sustain profitability.

The global solar electricity production capacity remains well below one percent of the world consumption of electricity. Thus, the market for solar power products is emerging and rapidly evolving, and its future success is uncertain. If solar power technology proves unsuitable for widespread commercial deployment or if demand for solar power products fails to develop sufficiently, we would be unable to generate enough revenues in the future to achieve and sustain profitability. In addition, demand for solar power products in the markets and geographic regions we intend to target may not develop or may develop more slowly than we anticipate. Many factors will influence the widespread adoption of solar power technology and demand for solar power products, including:

- cost-effectiveness of solar power technologies as compared with conventional and non-solar alternative energy technologies;
- performance and reliability of solar power products as compared with conventional and non-solar alternative energy products;
- success of alternative distributed generation technologies such as fuel cells, wind power and micro turbines;

- fluctuations in economic and market conditions that impact the viability of conventional and non-solar alternative energy sources, such as increases or decreases in the prices of oil and other fossil fuels;
- capital expenditures by customers that tend to decrease when the United States or global economy slows;
- continued deregulation of the electric power industry and broader energy industry; and
- availability of government subsidies and incentives.

We face intense competition, and many of our competitors have substantially greater resources than we do.

We operate in a competitive environment that is characterized by price fluctuation and technological change. We compete with major international and domestic companies. Some of our current and potential competitors have greater market recognition and customer bases, longer operating histories and substantially greater financial, technical, marketing, distribution, purchasing, manufacturing, personnel and other resources than we do. In addition, many of our competitors are developing and are currently producing products based on new solar power technologies that may ultimately have costs similar to, or lower than, our projected costs. As a result, they may be able to respond more quickly to changing customer demands or to devote greater resources to the development, promotion and sales of solar and solar-related products than we can.

We may be vulnerable to the efforts of electric utility companies lobbying to protect their revenue streams and from competition from solar power systems.

Electric utility companies could lobby for a change in the relevant legislation in their markets to protect their current revenue streams. Any adverse changes to the regulations and policies of the solar energy industry could deter end-user purchases of solar power products and investment in the research and development of solar power technology. In addition, electricity generated by solar power systems mostly competes with expensive peak hour electricity, rather than the less expensive average price of electricity. Even though new conventional power plants to meet peak hour electricity demand may require lengthy permitting and construction process, utilities could modify their peak hour pricing policies to such as flat rate pricing. This would require solar power systems to achieve lower prices in order to compete with the price of electricity. Any changes to government regulations or utility policies that favor electric utility companies could reduce our competitiveness and cause a significant reduction in demand for our products.

A drop in the retail price of conventional energy or non-solar alternative energy sources may negatively impact our business.

There is a general global awareness to reduce emission of carbon dioxide and other greenhouse gases that harm the environment which is driving the demand for renewable sources of energy. In spite of that, we believe that a customer's decision to purchase or install solar power capabilities is primarily driven by the cost of electricity from other sources and their anticipated return on investment resulting from solar power systems. Fluctuations in economic and market conditions that impact the prices of conventional and non-solar alternative energy sources, such as decreases in the prices of oil and other fossil fuels, could cause the demand for solar power systems to decline, which would have a negative impact on our profitability. Changes in utility electric rates or net metering policies could also have a negative effect on our business.

Existing regulations and changes to such regulations concerning the electrical utility industry may present technical, regulatory and economic barriers to the purchase and use of solar power products, which may significantly reduce demand for our products.

The market for electricity generation products is heavily influenced by foreign, federal, state and local government regulations and policies concerning the electric utility industry, as well as internal policies and regulations promulgated by electric utilities. These regulations and policies often relate to electricity pricing and technical interconnection of customer-owned electricity generation. In the U.S. and in a number of other countries, these regulations and policies are being modified and may continue to be modified. Customer purchases of; or further investment in the research and development of; alternative energy sources, including solar power technology, could be deterred by these regulations and policies, which could result in a significant reduction in the potential demand for our solar power products. For example, utility companies commonly charge fees to larger, industrial customers for disconnecting from the electric grid or for having the capacity to use power from the electric grid for back-up purposes. These fees could increase the cost of our solar power products and make them less desirable, thereby harming our business, prospects, results of operations and financial condition.

We anticipate that our solar power products and their installation will be subject to oversight and regulation in accordance with national, state and local laws and ordinances relating to building codes, safety, environmental protection, utility interconnection and metering and related matters. There is also a burden in having to track the requirements of individual states and design equipment to comply with the varying standards. Any new government regulations or utility policies pertaining to our solar power

products may result in significant additional expenses to us and our resellers and their customers and, as a result, could cause a significant reduction in demand for our solar power products.

Risks Related to our Intellectual Property

Any loss of the right to use our core technology that we license from a related party would adversely impact our business.

We license our core technology from Magnolia Optical, a company under the control of our two executive officers and directors, under an exclusive license agreement. The license has an initial term of ten years ending April 30, 2018 and shall automatically continue in effect thereafter unless terminated by either party. The license may be terminated for cause by either party. Any loss of the right to use any of our core technology could result in significant costs to implement work-around methods, and we cannot provide any assurance that any such work-around would be available or technically equivalent to our current technology that we license. If we are unable to implement a commercially viable work around it might cause us to cease operations.

If we fail to establish, maintain and enforce intellectual property rights with respect to our technology, our financial condition, results of operations and business could be negatively impacted.

Our ability to establish, maintain and enforce intellectual property rights with respect to our technology will be a significant factor in determining our future financial and operating performance. We seek to protect our intellectual property rights by relying on a combination of patent and trade secret laws. We also use confidentiality and other provisions in our agreements that restrict access to and disclosure of its confidential know-how and trade secrets.

We have filed patent applications with respect to a number of aspects of our technologies. However, we cannot provide any assurances that any of these applications will ultimately result in issued patents or, if patents are issued, that they will provide sufficient protections for our technology against competitors. Although we have filed patent applications for some of our core technologies, we do not currently hold any issued patents and we may face delays and difficulties in obtaining these patents, or we may not be able to obtain such patents at all.

Outside of these patent applications, we seek to protect our technology as trade secrets and technical know-how. However, trade secrets and technical know-how are difficult to maintain and do not provide the same legal protections provided by patents. In particular, only patents will allow us to prohibit others from using independently developed technology that are similar. If competitors develop knowledge substantially equivalent or superior to our trade secrets and technical know-how, or gain access to our knowledge through other means such as observation of our technology that embodies trade secrets at customer sites which we do not control, the value of our trade secrets and technical know-how would be diminished.

While we strive to maintain systems and procedures to protect the confidentiality and security of our trade secrets and technical know-how, these systems and procedures may fail to provide an adequate degree of protection. For example, although we generally enter into agreements with our employees, consultants, advisors, and strategic partners restricting the disclosure and use of trade secrets, technical know-how and confidential information, we cannot provide any assurance that these agreements will be sufficient to prevent unauthorized use or disclosure. In addition, some of the technology deployed at customer sites in the future, which we do not control, may be readily observable by third parties who are not under contractual obligations of non-disclosure, which may limit or compromise our ability to continue to protect such technology as a trade secret.

While we are not currently aware of any infringement or other violation of our intellectual property rights, monitoring and policing unauthorized use and disclosure of intellectual property is difficult. If we learned that a third party was in fact infringing or otherwise violating our intellectual property, we may need to enforce our intellectual property rights through litigation. Litigation relating to our intellectual property may not prove successful and might result in substantial costs and diversion of resources and management attention.

Although we have filed patent applications for some of our core technologies, we do not currently hold any issued patents and we may face delays and difficulties in obtaining these patents, or we may not be able to obtain such patents at all.

Patents are a key element of our intellectual property strategy. We have several currently pending patent applications in the United States but, to date, no patents have issued from these applications. It may take a long time for any patents to issue from the applications, and we cannot provide any assurance that any patents will ultimately be issued or that any patents that do ultimately issue will issue in a form that will adequately protect our commercial advantage.

Our ability to obtain patent protection for our technologies is uncertain due to a number of factors, including that we may not have been the first to make the inventions covered by our pending patent applications or to file patent applications for these inventions.

Further, changes in U.S. and foreign patent law may also impact our ability to successfully prosecute our patent applications. For example, the United States Congress and other foreign legislative bodies may amend their respective patent laws in a manner that makes obtaining patents more difficult or costly. Courts may also render decisions that alter the application of patent laws and detrimentally affect our ability to obtain patent protection.

Even if patents do ultimately issue from our patent applications, these patents may not provide meaningful protection or commercial advantage. Patents only provide protection for a 20-year period starting from the filing date and the longer a patent application takes to issue the less time there is to enforce it. Further, the claims under any patents that issue from our applications may not be broad enough to prevent others from developing technologies that are similar or that achieve similar results. It is also possible that the intellectual property rights of others will bar us from licensing our technology and bar us or our future licensees from exploiting any patents that issue from its pending applications. Numerous U.S. and foreign issued patents and pending patent applications owned by others exist in the fields in which we have developed and are developing our technology. These patents and patent applications might have priority over our patent applications and could subject our patent applications to invalidation. Finally, in addition to those who may claim priority, any patents that issue from our applications may also be challenged by our competitors on the basis that they are otherwise invalid or unenforceable.

We may face claims that we are violating the intellectual property rights of others.

We may face claims, including from direct competitors, other solar power companies, scientists or research universities, asserting that our technology or the commercial use of such technology infringes or otherwise violates the intellectual property rights of others. We have not conducted infringement, freedom to operate or landscape analyses, and as a result we cannot be certain that our technologies and processes do not violate the intellectual property rights of others. We expect that we may increasingly be subject to such claims as we begin to earn revenues and our market profile grows.

We may also face infringement claims from the employees, consultants, agents and outside organizations we have engaged to develop our technology. While we have sought to protect ourselves against such claims through contractual means, we cannot provide any assurance that such contractual provisions are adequate, and any of these parties might claim full or partial ownership of the intellectual property in the technology that they were engaged to develop.

If we were found to be infringing or otherwise violating the intellectual property rights of others, we could face significant costs to implement work-around methods, and we cannot provide any assurance that any such work-around would be available or technically equivalent to our current technology. In such cases, we might need to license a third party's intellectual property, although any required license might not be available on acceptable terms, or at all. If we are unable to work around such infringement or obtain a license on acceptable terms, we might face substantial monetary judgments against us or an injunction against continuing to license our technology, which might cause us to cease operations.

In addition, even if we are not infringing or otherwise violating the intellectual property rights of others, we could nonetheless incur substantial costs in defending ourselves in suits brought against us for alleged infringement. Also, if any license agreements provide that we will defend and indemnify our customer licensees for claims against them relating to any alleged infringement of the intellectual property rights of third parties in connection with such customer licensees' use of our technologies, we may incur substantial costs defending and indemnifying any customer licensees to the extent they are subject to these types of claims. Such suits, even if without merit, would likely require our management team to dedicate substantial time to addressing the issues presented. Any party bringing claims might have greater resources than we do, which could potentially lead to us settling claims against which we might otherwise prevail on the merits.

Any claims brought against us alleging that we have violated the intellectual property of others could have negative consequences for our financial condition, results of operations and business, each of which could be materially adversely affected as a result.

Our reliance on government programs to partially fund our research and development programs could impair our ability to commercialize our solar power products and services.

Government funding of some of our research and development efforts imposes certain restrictions on our ability to commercialize results and could grant commercialization rights to the government. In some funding awards, the government is entitled to intellectual property rights arising from the related research. Such rights include a nonexclusive, nontransferable, irrevocable, paid-up license to practice or have practiced each subject invention developed under an award throughout the world by or on behalf of the government. Other rights include the right to require us to grant a license to the developed technology or products to a third party or, in some cases, if we refuse, the government may grant the license itself, if the government determines that action is necessary because we fail to achieve practical application of the technology, because action is necessary to alleviate health or safety needs, to meet requirements of federal regulations, or to give the United States industry preference. Accepting government funding can also require that manufacturing of products developed with federal funding be conducted in the United States.

Risks Related to our Organization and our Common Stock

If we fail to establish and maintain an effective system of internal control, we may not be able to report our financial results accurately or to prevent fraud. Any inability to report and file our financial results accurately and timely could harm our reputation and adversely impact the trading price of our common stock.

Effective internal control is necessary for us to provide reliable financial reports and prevent fraud. If we cannot provide reliable financial reports or prevent fraud, we may not be able to manage our business as effectively as we would if an effective control environment existed, and our business and reputation with investors may be harmed. As a result, our small size and any current internal control deficiencies may adversely affect our financial condition, results of operation and access to capital. We have not performed an in-depth analysis to determine if historical un-discovered failures of internal controls exist, and may in the future discover areas of our internal control that need improvement.

Public company compliance may make it more difficult to attract and retain officers and directors.

The Sarbanes-Oxley Act and rules implemented by the SEC have required changes in corporate governance practices of public companies. As a public company, we expect these rules and regulations to increase our compliance costs in 2014 and beyond and to make certain activities more time consuming and costly. As a public company, we also expect that these rules and regulations may make it more difficult and expensive for us to obtain director and officer liability insurance and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified persons to serve on our board of directors or as executive officers, and to maintain insurance at reasonable rates, or at all.

Because we became public by means of a reverse merger, we may not be able to attract the attention of major brokerage firms.

There may be risks associated with us becoming public through a “reverse merger.” Securities analysts of major brokerage firms may not provide coverage of us since there is no incentive to brokerage firms to recommend the purchase of our common stock. No assurance can be given that brokerage firms will, in the future, want to conduct any offerings on behalf of our post-reverse merger company.

Our stock price may be volatile.

The market price of our common stock is likely to be highly volatile and could fluctuate widely in price in response to various factors, many of which are beyond our control, including the following:

- changes in our industry;
- competitive pricing pressures;
- our ability to obtain working capital financing;
- additions or departures of key personnel;
- limited “public float” following the reverse merger, in the hands of a small number of persons whose sales or lack of sales could result in positive or negative pricing pressure on the market price for our common stock;
- sales of our common stock;
- our ability to execute our business plan;
- operating results that fall below expectations;
- loss of any strategic relationship;
- regulatory developments;
- economic and other external factors;
- period-to-period fluctuations in our financial results; and
- inability to develop or acquire new or needed technology.

In addition, the securities markets have from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of our common stock.

We have not paid dividends in the past and do not expect to pay dividends in the future. Any return on investment may be limited to the value of our common stock.

We have never paid cash dividends on our common stock and do not anticipate doing so in the foreseeable future. The payment of dividends on our common stock will depend on earnings, financial condition and other business and economic factors affecting us at such time as our board of directors may consider relevant. If we do not pay dividends, our common stock may be less valuable because a return on your investment will only occur if our stock price appreciates.

Our shares of common stock are very thinly traded, and the price may not reflect our value and there can be no assurance that there will be an active market for our shares of common stock either now or in the future.

Our shares of common stock are very thinly traded, only a small percentage of our common stock is available to be traded and is held by a small number of holders and the price, if traded, may not reflect our actual or perceived value. There can be no assurance that there will be an active market for our shares of common stock either now or in the future. The market liquidity will be dependent on the perception of our operating business, among other things. We may take certain steps including utilizing investor awareness campaigns, press releases, road shows and conferences to increase awareness of our business and any steps that we might take to bring us to the awareness of investors may require we compensate consultants with cash and/or stock. There can be no assurance that there will be any awareness generated or the results of any efforts will result in any impact on our trading volume. Consequently, investors may not be able to liquidate their investment or liquidate it at a price that reflects the value of the business and trading may be at an inflated price relative to the performance of our company due to, among other things, availability of sellers of our shares. If a market should develop, the price may be highly volatile. Because there may be a low price for our shares of common stock, many brokerage firms or clearing firms may not be willing to effect transactions in the securities or accept our shares for deposit in an account. Even if an investor finds a broker willing to effect a transaction in the shares of our common stock, the combination of brokerage commissions, transfer fees, taxes, if any, and any other selling costs may exceed the selling price. Further, many lending institutions will not permit the use of low priced shares of common stock as collateral for any loans.

Our common stock is currently quoted for trading on the OTC Bulletin Board; however, we cannot be sure that such quotations will continue. As soon as is practicable, we anticipate applying for listing of our common stock on either the NYSE MKT, The NASDAQ Capital Market or other national securities exchange, assuming that we can satisfy the initial listing standards for such exchange. We currently do not satisfy the initial listing standards, and cannot ensure that we will be able to satisfy such listing standards or that our common stock will be accepted for listing on any such exchange. Should we fail to satisfy the initial listing standards of such exchanges, or our common stock is otherwise rejected for listing and remain listed on the OTC Bulletin Board or suspended from the OTC Bulletin Board, the trading price of our common stock could suffer and the trading market for our common stock may be less liquid and our common stock price may be subject to increased volatility.

Furthermore, for companies whose securities are traded in the OTC Bulletin Board, it is more difficult (1) to obtain accurate quotations, (2) to obtain coverage for significant news events because major wire services generally do not publish press releases about such companies, and (3) to obtain needed capital.

Our common stock is be deemed a “penny stock,” which would make it more difficult for our investors to sell their shares.

Our common stock is subject to the “penny stock” rules adopted under Section 15(g) of the Exchange Act. The penny stock rules generally apply to companies whose common stock is not listed on NYSE MKT, The NASDAQ Stock Market or other national securities exchange and trades at less than \$5.00 per share, other than companies that have had average revenue of at least \$6,000,000 for the last three years or that have tangible net worth of at least \$5,000,000 (\$2,000,000 if the company has been operating for three or more years). These rules require, among other things, that brokers who trade penny stock to persons other than “established customers” complete certain documentation, make suitability inquiries of investors and provide investors with certain information concerning trading in the security, including a risk disclosure document and quote information under certain circumstances. Many brokers have decided not to trade penny stocks because of the requirements of the penny stock rules and, as a result, the number of broker-dealers willing to act as market makers in such securities is limited. If we remain subject to the penny stock rules for any significant period, it could have an adverse effect on the market, if any, for our securities. If our securities are subject to the penny stock rules, investors will find it more difficult to dispose of our securities.

Offers or availability for sale of a substantial number of shares of our common stock may cause the price of our common stock to decline.

If our stockholders sell substantial amounts of our common stock in the public market upon the expiration of any statutory holding period, under Rule 144, or upon expiration of lock-up periods applicable to outstanding shares, or issued upon the exercise of

outstanding options or warrants, it could create a circumstance commonly referred to as an “overhang” and in anticipation of which the market price of our common stock could fall. The existence of an overhang, whether or not sales have occurred or are occurring, also could make more difficult our ability to raise additional financing through the sale of equity or equity-related securities in the future at a time and price that we deem reasonable or appropriate.

Because our directors and executive officers are among our largest stockholders, they can exert significant control over our business and affairs and have actual or potential interests that may depart from those of our other stockholders.

Our directors and executive officers own or control a significant percentage of our common stock. Additionally, the holdings of our directors and executive officers may increase in the future upon vesting or other maturation of exercise rights under any of the options or warrants they may hold or in the future be granted or if they otherwise acquire additional shares of our common stock. Our current officers and directors own an aggregate of 16,400,000 shares of our common stock or a total of approximately 47% of the voting power of all our outstanding shares of stock. The interests of such persons may differ from the interests of our other stockholders. As a result, in addition to their board seats and offices, such persons will have significant influence over and control all corporate actions requiring stockholder approval, irrespective of how our other stockholders may vote, including the following actions:

- to elect or defeat the election of our directors;
- to amend or prevent amendment of our Articles of Incorporation or By-laws;
- to effect or prevent a merger, sale of assets or other corporate transaction; and
- to control the outcome of any other matter submitted to our stockholders for vote.

In addition, such persons' stock ownership may discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of the Company, which in turn could reduce our stock price or prevent our stockholders from realizing a premium over our stock price.

Exercise of options and warrants may have a dilutive effect on our common stock.

If the price per share of our common stock at the time of exercise of any warrants, options, or any other convertible securities is in excess of the various exercise or conversion prices of such convertible securities, exercise or conversion of such convertible securities would have a dilutive effect on our common stock. As of December 31, 2013, we had (i) outstanding warrants to purchase 3,785,300 shares of our common stock at an exercise price of \$0.10 per share, (ii) outstanding placement agent warrants and placement agent retainer warrants to purchase 725,300 shares of our common stock at an exercise price of \$0.10 per share, and (iii) outstanding notes, the principal of which is convertible into 9,600,000 shares of our common stock at a conversion price of \$0.25 and the interest of which is convertible at 90% of the volume weighted average price of our common stock during the 20 trading days prior to the interest payment date. In addition, in February, 2013, we adopted the Magnolia Solar Corporation 2013 Incentive Stock Plan which authorizes for issuance up to 5,500,000 shares of our common stock under the plan, of which 553,577 have been issued. Further, any additional financing that we secure may require the granting of rights, preferences or privileges senior to those of our common stock and which result in additional dilution of the existing ownership interests of our common stockholders.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties.

We lease our Woburn, Massachusetts headquarters, consisting of approximately 360 square feet of office space, at \$341 per month. The lease expires on December 30, 2015. We also lease office space in the Albany Nanotech Center of the College of Nanoscale Science and Engineering in Albany, New York. This office space consists of approximately 430 square feet at a monthly rent of \$1,102.96, and the lease expires on January 31, 2015.

Item 3. Legal Proceedings.

From time to time, we may become involved in litigation relating to claims arising out of our operations in the normal course of business. We are not presently involved in any pending legal proceeding or litigation and, to the best of our knowledge, no governmental authority is contemplating any proceeding to which we are a party or to which any of our properties is subject, which would reasonably be likely to have a material adverse effect on the Company.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II**Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.****Market Information**

Our common stock was quoted on the OTC Bulletin Board from September 5, 2008 through February 5, 2010 under the symbol MBSV.OB. Since February 6, 2010, our common stock has been listed on OTC Bulletin Board under the symbol MGLT. Prior to February 8, 2010, there was no active market for our common stock. The following table sets forth the high and low bid prices for our common stock for the periods indicated, as reported by the OTC Bulletin Board. The quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not represent actual transactions.

FISCAL YEAR 2013	HIGH	LOW
First Quarter	\$ 0.09	\$ 0.03
Second Quarter	\$ 0.12	\$ 0.03
Third Quarter	\$ 0.05	\$ 0.03
Fourth Quarter	\$ 0.07	\$ 0.04

FISCAL YEAR 2012	HIGH	LOW
First Quarter	\$ 0.21	\$ 0.05
Second Quarter	\$ 0.13	\$ 0.06
Third Quarter	\$ 0.15	\$ 0.08
Fourth Quarter	\$ 0.08	\$ 0.03

According to the records of our transfer agent, as of March 24, 2014, there were approximately 61 holders of record of our common stock. This number does not include beneficial owners whose shares are held in the names of various securities brokers, dealers and registered clearing agencies.

Dividend Policy

We have never declared or paid cash dividends on our common stock, and we do not intend to pay any cash dividends on our common stock in the foreseeable future. Rather, we expect to retain future earnings (if any) to fund the operation and expansion of our business and for general corporate purposes.

Recent Sales of Unregistered Securities

There were no sales of unregistered securities during the fiscal year ended December 31, 2013 other than those transactions previously reported to the SEC on our quarterly reports on Form 10-Q and current reports on Form 8-K.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

Equity Compensation Plan Information

On February 4, 2013, our Board of Directors adopted the Magnolia Solar Corporation 2013 Incentive Stock Plan (the "Plan"). The purpose of the Plan is to retain executives and selected employees and consultants and reward them for making contributions to the success of the Company. These objectives are accomplished by making long-term incentive awards under the Plan thereby providing participants with a proprietary interest in our growth and performance. Under the Plan, 5,500,000 shares of our common stock have been reserved. The Plan shall be administered by our Board of Directors.

During the year ended December 31, 2013, we granted 458,840 shares of common stock under the Plan. As of December 31, 2013, 5,041,160 shares of common stock remain available for issuance under the Plan.

Item 6. Selected Financial Data.

Not applicable.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Forward-Looking Statements

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

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

Overview

We are a development stage company focused on developing and commercializing thin film solar cell technologies that employ nanostructured materials and designs. We are pioneering the development of thin film, high efficiency solar cells for applications such as power generation for electrical grids as well as for local applications, including lighting, heating, traffic control, irrigation, water distillation, and other residential, agricultural and commercial uses.

We intend to become a highly competitive, low cost provider of terrestrial photovoltaic cells for both civilian and military applications. These cells will be based on low cost substrates such as glass and flexible substrates such as stainless steel. Our primary goal is to introduce a product which offers significant cost savings per watt over traditional silicon based solar cells. To date, we have not generated material revenues or earnings as a result of our activities.

Results of Operations

Our revenues are derived from research and development grants and contracts awarded to the company by government and private sector.

Year Ended December 31, 2013 Compared to the Year Ended December 31, 2012

Revenues

Currently we are in our development stage and have recorded \$738,122 of revenue for the year ended December 31, 2013 compared to \$648,477 of revenue for the year ended December 31, 2012 an increase of \$89,645 or 13.82%. We anticipate emerging from the development stage in fiscal year end 2015. The revenue recorded is from research and development grants or contracts to develop solar cells using Magnolia's technology.

Cost of Revenues

Cost of revenues for the year ended December 31, 2013 were \$460,406 as compared to \$415,004 for the year ended December 31, 2012, an increase of \$45,402 or 10.94%. Cost of revenues were comprised of direct labor, direct travel, materials, and subcontracts for the solar cell development. The increase in cost of revenues for this period was attributable to additional direct labor, subcontractor and other direct costs.

Operating Expenses

Indirect and Administrative Labor

Indirect and administrative labor expense for the year ended December 31, 2013 was \$169,559 as compared to \$192,083 for the year ended December 31, 2012, a decrease of \$22,524 or 11.73%. Indirect labor and benefits were comprised of wages for the administrative staff, payroll taxes, health insurance, disability insurance, indirect travel, other administrative expenses and provision

for vacation time. The decrease in indirect and administrative expenses for this period was primarily attributable to a decrease in indirect labor and health insurance costs.

Professional Fees

Professional fees for the year ended December 31, 2012 were \$167,836 as compared to \$731,254 for the year ended December 31, 2012, a decrease of \$563,418 or 77.05%. Professional fees were comprised of accounting, business services, public relations, audit, and legal fees. The decrease in professional fees for this period was primarily the result of a reduction in expense attributed to the issuance of stock for services.

Depreciation and Amortization Expense

Depreciation and amortization expense for the year ended December 31, 2013 was \$36,452 as compared to \$37,997 for the year ended December 31, 2012, a decrease of \$1,545 or 4.07%. Depreciation and amortization expense was comprised of amortization of the license fee paid for the technology license, amortization of the debt issue, and depreciation on the property and equipment. The decrease in depreciation and amortization expense for this period was attributable to decrease of amortization of debt expense.

General and Administrative

General and administrative expense for the year ended December 31, 2013 was \$45,146 as compared to \$164,254 for the year ended December 31, 2012, a decrease of \$119,108 or 72.51%. General and administrative expense was comprised of expenses for office lease, computer, office supplies, dues and subscriptions, worker's compensation, disability insurance, printing, telephone, business meals, repairs and maintenance, public relations, advertising, state income taxes, business gifts and other miscellaneous items. The decrease in general and administrative expense for this period was attributable to a reduction in public relations expense.

Interest Expense

Interest expense for the year ended December 31, 2013 was \$239,872 as compared to \$39,754 for the year ended December 31, 2012, an increase of \$200,118 or 500.03%. Interest expense was comprised of interest incurred on outstanding long-term debt. The increase in interest expense during this period was attributable to the extension of the debt and changes in terms to those agreements.

Net Loss

As a result of the aforesaid, our net loss was \$377,149 for the year ended December 31, 2013, as compared to a net loss of \$926,571 for the year ended December 31, 2012, a decrease of \$549,422 or 59.30%.

Liquidity and Capital Resources

Liquidity is the ability of a company to generate funds to support its current and future operations, satisfy its obligations, and otherwise operate on an ongoing basis. Significant factors in the management of liquidity are funds generated by operations, levels of accounts receivable and accounts payable and capital expenditures.

To date we have financed our operations through internally government grants, the sale of our common stock and the issuance of debt.

At December 31, 2013 and December 31, 2012 we had cash of \$118,172 and \$135,626 respectively and working capital deficit of \$2,505,739 and \$2,380,702, respectively. The decrease in working capital was due to increase in the accruals and decreases to cash and accounts receivable. The opinion of our independent registered public accounting firm on our audited financial statements as of and for the year ended December 31, 2013 contains an explanatory paragraph regarding substantial doubt about our ability to continue as a going concern. Our ability to continue as a going concern is dependent upon raising capital from financing transactions. Our ability to continue as a going concern is dependent upon raising capital from financing transactions.

Net cash and cash equivalents used in operating activities was \$17,454 for the year ended December 31, 2013, as compared to net cash used in operating activities of \$120,236 for the year ended December 31, 2012. The decrease in net cash used in operating activities was attributable to increase in accrued expenses coupled with a decrease in accounts receivable.

There were no investing activities for the year ended December 31, 2013 or December 31, 2012. There was no cash used in investing activities because we did not add to plant and equipment.

There were no financing activities for the year ended December 31, 2013 or December 31, 2012. There were no capital

raising transactions during the reporting period.

Since our inception, we have experienced negative cash flow from operations and expect to experience significant negative cash flow from operations in the future. In addition, we have original issue discount notes in the aggregate principal of \$2,400,000 that matures on December 31, 2014. Such indebtedness is secured by substantially all of our assets. If we were to default on our indebtedness, then holders of the notes may foreclose on the debt and seize our assets which may force us to suspend or cease operations altogether.

Although we believe our cash on hand is sufficient to continue our operations for at least the next 12 months, we will need to raise additional funds in the future so that we can expand our operations and repay our indebtedness due under the original issue senior secured notes. Therefore our continuation as a going concern is dependent on our ability to obtain necessary equity funding to continue operations. Financing transactions may include the issuance of equity or debt securities, obtaining credit facilities, government grants or other financing mechanisms. However, the trading price of our common stock and a downturn in the U.S. equity and debt markets could make it more difficult to obtain financing through the issuance of equity or debt securities. Even if we are able to raise the funds required, it is possible that we could incur unexpected costs and expenses, fail to collect significant amounts owed to us, or experience unexpected cash requirements that would force us to seek alternative financing. Furthermore, if we issue additional equity or debt securities, stockholders may experience additional dilution or the new equity securities may have rights, preferences or privileges senior to those of existing holders of our common stock. The inability to obtain additional capital may restrict our ability to grow and may reduce our ability to continue to conduct business operations. If we are unable to obtain additional financing, we may have to curtail our development plans and possibly cease our operations altogether.

Off-Balance Sheet Arrangements

Since our inception, except for standard operating leases, we have not engaged in any off-balance sheet arrangements, including the use of structured finance, special purpose entities or variable interest entities.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 8. Financial Statements and Supplementary Data.



Report of Independent Registered Public Accounting Firm

To the Directors of
Magnolia Solar Corporation

We have audited the accompanying consolidated balance sheets of Magnolia Solar Corporation (the "Company") (a development stage company) as of December 31, 2013 and 2012, and the related consolidated statements of operations, changes in stockholders' equity (deficit) and cash flows for the years ended December 31, 2013 and 2012 and period January 8, 2008 (Inception) through December 31, 2013. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Magnolia Solar Corporation (a development stage company) as of December 31, 2013 and 2012, and the results of its consolidated statements of operations, changes in stockholders' equity (deficit), and cash flows for the years ended December 31, 2013 and 2012 and period January 8, 2008 (Inception) through December 31, 2013 in conformity with U.S. generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company is in process of continuing its development of its thin film solar cell technology and has substantial losses as a result of this. The lack of profitable operations raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in this regard are described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

KBL, LLP

/s/KBL, LLP
New York, NY
March 28, 2014

MAGNOLIA SOLAR CORPORATION
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2013 AND DECEMBER 31, 2012

ASSETS

	December 31, 2013	December 31, 2012
	<u>2013</u>	<u>2012</u>
CURRENT ASSETS		
Cash	\$ 118,172	\$ 135,626
Accounts receivable	226,625	267,116
Prepaid expense	1,417	1,417
Total current assets	<u>346,214</u>	<u>404,159</u>
Fixed assets, net	<u>935</u>	<u>1,737</u>
OTHER ASSETS		
License with Related Party, net of accumulated amortization	<u>154,483</u>	<u>190,133</u>
Total other assets	<u>154,483</u>	<u>190,133</u>
TOTAL ASSETS	<u>\$ 501,632</u>	<u>\$ 596,029</u>
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 451,953	\$ 384,861
Current portion of Original Issue Discount Senior Secured Convertible Promissory Note, net of discount	<u>2,400,000</u>	<u>2,400,000</u>
Total current liabilities	<u>2,851,953</u>	<u>2,784,861</u>
TOTAL LIABILITIES	<u>2,851,953</u>	<u>2,784,861</u>
STOCKHOLDERS' DEFICIT		
Common stock, \$0.001 par value, 75,000,000 shares authorized, 33,835,268 and 28,167,063 shares issued and outstanding	33,836	28,167
Additional paid-in capital	1,957,574	1,747,583
Additional paid-in capital - warrants	962,297	962,297
Deficit accumulated during the development stage	<u>(5,304,028)</u>	<u>(4,926,879)</u>
Total stockholders' deficit	<u>(2,350,321)</u>	<u>(2,188,832)</u>
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	<u>\$ 501,632</u>	<u>\$ 596,029</u>

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

MAGNOLIA SOLAR CORPORATION
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
AND FOR THE PERIOD JANUARY 8, 2008 (INCEPTION) THROUGH DECEMBER 31, 2013

	YEAR ENDED DECEMBER 31, 2013	YEAR ENDED DECEMBER 31, 2012	JANUARY 8, 2008 (INCEPTION) THROUGH DECEMBER 31, 2013
REVENUE	\$ 738,122	\$ 648,477	\$ 2,802,273
COST OF REVENUES	460,406	415,004	1,746,735
GROSS PROFIT	277,716	233,473	1,055,538
OPERATING EXPENSES			
Indirect and administrative labor	169,559	192,083	750,048
Professional fees	167,836	731,254	1,558,765
Depreciation and amortization expense	36,452	37,997	819,146
General and administrative	45,146	164,254	877,126
Total operating expenses	418,993	1,125,588	4,005,085
OTHER INCOME (EXPENSE)			
Interest expense including amortization of OID and debt discount, net	239,872	39,754	2,363,779
Forgiveness of debt	(4,000)	(5,298)	(9,298)
Total other income (expense)	235,872	34,456	2,354,481
LOSS BEFORE PROVISION FOR INCOME TAXES	(377,149)	(926,571)	(5,304,028)
PROVISION OF INCOME TAXES	-	-	-
NET LOSS	\$ (377,149)	\$ (926,571)	\$ (5,304,028)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	30,839,830	27,179,474	
NET LOSS PER SHARE	\$ (0.01)	\$ (0.03)	

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

MAGNOLIA SOLAR CORPORATION
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)
FOR THE PERIOD JANUARY 8, 2008 (INCEPTION) THROUGH DECEMBER 31, 2013
(INCLUDING MOBILIS RELOCATION SERVICES - PRE-MERGER)

	<u>Common Stock Shares</u>	<u>Amount</u>	<u>Additional Paid-In Capital</u>	<u>Additional Paid-In Capital - Warrants</u>	<u>Deficit Accumulated During the Development Stage</u>	<u>Total</u>
Balance - November 19, 2007	-	\$ -	\$ -	\$ -	\$ -	\$ -
Common shares issued to founders for cash	1,973,685	1,974	13,026	-	-	15,000
Common shares issued for cash - others	2,500,001	2,500	35,500	-	-	38,000
Net loss for the period ended March 31, 2008	-	-	-	-	(4,477)	(4,477)
Balance - March 31, 2008	4,473,686	4,474	48,526	-	(4,477)	48,523
Net loss for the year ended March 31, 2009	-	-	-	-	(31,115)	(31,115)
Balance - March 31, 2009	4,473,686	4,474	48,526	-	(35,592)	17,408
Net loss for the period April 1, 2009 through December 30, 2009	-	-	-	-	(5,719)	(5,719)
To reflect the issuance of shares in the merger of Magnolia Solar Corp., net of the cancellation of founders shares	19,356,314	19,356	289,144	-	(126,151)	182,349
To reflect the issuance of warrants in the issuance of the Original Issue Discount Promissory Notes	-	-	-	412,830	-	412,830
To reflect the issuance of warrants to the Placement Agent	-	-	-	454,976	-	454,976
Net loss for the period December 30, 2009 through December 31, 2009	-	-	-	-	(49,440)	(49,440)
Balance - December 31, 2009	23,830,000	23,830	337,670	867,806	(216,902)	1,012,404
Common shares issued for services rendered	100,000	100	82,400	-	-	82,500
Net loss for the year ended December 31, 2010	-	-	-	-	(1,543,775)	(1,543,775)

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

(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT) - CONTINUED
FOR THE PERIOD JANUARY 8, 2008 (INCEPTION) THROUGH DECEMBER 31, 2013
(INCLUDING MOBILIS RELOCATION SERVICES - PRE-MERGER)

	<u>Common Stock Shares</u>	<u>Amount</u>	<u>Additional Paid-In Capital</u>	<u>Additional Paid-In Capital - Warrants</u>	<u>Accumulated During the Development Stage</u>	<u>Total</u>
Balance - December 31, 2010 (continued)	23,930,000	23,930	420,070	867,806	(1,760,677)	(448,871)
Common shares issued for services rendered	400,000	400	78,350	-	-	78,750
To reflect the issuance of shares issued in						
Conversion of OID Notes	1,040,000	1,040	258,960	-	-	260,000
To reflect the issuance of penalty shares related to						
Amendment of OID Notes	1,300,000	1,300	271,700	-	-	273,000
Value of warrants issued for services	-	-	-	94,491	-	94,491
Net loss for the year ended December 31, 2011	-	-	-	-	(2,239,631)	(2,239,631)
Balance - December 31, 2011	26,670,000	26,670	1,029,080	962,297	(4,000,308)	(1,982,261)
Common shares issued for services rendered	1,155,000	1,155	688,845	-	-	690,000
Common shares issued for payment of interest	342,063	342	29,658	-	-	30,000
Net loss for the year ended December 31, 2012	-	-	-	-	(926,571)	(926,571)
Balance - December 31, 2012	28,167,063	28,167	1,747,583	962,297	(4,926,879)	(2,188,832)
Common shares issued for payment of interest	5,109,365	5,110	184,890	-	-	190,000
Common shares issued for services rendered	558,840	559	25,101	-	-	25,660
Net loss for the year ended December 31, 2013	-	-	-	-	(377,149)	(377,149)
Balance - December 31, 2013	<u>33,835,268</u>	<u>\$ 33,836</u>	<u>\$ 1,957,574</u>	<u>\$ 962,297</u>	<u>\$ (5,304,028)</u>	<u>\$ (2,350,321)</u>

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

MAGNOLIA SOLAR CORPORATION
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF CASH FLOW
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
AND FOR THE PERIOD JANUARY 8, 2008 (INCEPTION) THROUGH DECEMBER 31, 2013

	YEAR ENDED DECEMBER 31, 2013	YEAR ENDED DECEMBER 31, 2012	JANUARY 8, 2008 (INCEPTION) THROUGH DECEMBER 31, 2013
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	\$ (377,149)	\$ (926,571)	\$ (5,304,028)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization expense	36,452	37,997	819,146
Common stock issued for services rendered	25,660	690,000	876,910
Common stock issued for penalty shares in the amendment of the OID Notes	-	-	273,000
Common stock issued for payment of interest	190,000	30,000	220,000
Warrants issued for services rendered	-	-	94,491
Amortization of original issue discount and debt discount	-	-	2,082,830
Forgiveness of debt	(4,000)	(5,298)	(9,298)
Change in assets and liabilities:			
(Increase) decrease in accounts receivable	40,491	(20,006)	(226,624)
(Increase) in prepaid expenses	-	-	(1,417)
Increase in accounts payable and accrued expenses	71,092	73,642	461,250
Total adjustments	<u>359,695</u>	<u>806,335</u>	<u>4,590,288</u>
Net cash used in operating activities	<u>(17,454)</u>	<u>(120,236)</u>	<u>(713,740)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of fixed assets	-	-	(8,288)
Deferred financing fees paid in connection with funding	-	-	(154,800)
Net cash used in investing activities	<u>-</u>	<u>-</u>	<u>(163,088)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issuance of stock for cash	-	-	5,000
Proceeds received from loan payable - related party	-	-	70,000
Repayment of loan payable - related party	-	-	(70,000)
Net proceeds received from Original Issue Discount Promissory Notes	-	-	990,000
Net cash provided by financing activities	<u>-</u>	<u>-</u>	<u>995,000</u>
NET INCREASE (DECREASE) IN CASH	(17,454)	(120,236)	118,172
CASH - BEGINNING OF PERIOD	<u>135,626</u>	<u>255,862</u>	<u>-</u>
CASH - END OF PERIOD	<u>\$ 118,172</u>	<u>\$ 135,626</u>	<u>\$ 118,172</u>

MAGNOLIA SOLAR CORPORATION
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF CASH FLOW (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
AND FOR THE PERIOD JANUARY 8, 2008 (INCEPTION) THROUGH DECEMBER 31, 2013

SUPPLEMENTAL CASH FLOW INFORMATION:

Cash paid during the period for:

Interest	\$	-	\$	-	\$	1,371
Income taxes	\$	1,658	\$	1,352	\$	7,812

NON-CASH SUPPLEMENTAL INFORMATION:

Stock issued for services rendered	\$	25,660	\$	690,000	\$	876,910
Stock issued for penalty shares for the amendment of the OID Notes	\$	-	\$	-	\$	273,000
Stock issued for payment of interest	\$	190,000	\$	30,000	\$	220,000
Stock issued in conversion of OID Notes	\$	-	\$	-	\$	260,000
Warrants issued for services rendered	\$	-	\$	-	\$	94,491
Amortization of original issue discount and debt discount	\$	-	\$	-	\$	2,082,830

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

MAGNOLIA SOLAR CORPORATION
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013

Note 1 – Organization and Nature of Business

Magnolia Solar Corporation (the “Registrant”) through its wholly owned subsidiary, Magnolia Solar, Inc. (“Magnolia Solar” and together with the Registrant, “we,” “our,” “us,” or the “Company”) is a development stage company focused on developing and commercializing thin film solar cell technologies that employ nanostructured materials and designs.

The Company is pioneering the development of thin film, high efficiency solar cells for applications such as power generation for electrical grids as well as for local applications, including lighting, heating, traffic control, irrigation, water distillation, and other residential, agricultural and commercial uses.

The Company’s technology takes multiple approaches to bringing cell efficiencies close to those realized in silicon based solar cells while also lowering manufacturing costs. The technology uses a different composition of materials than those used by competing thin film cell manufacturers; incorporates additional layers of material to absorb a wider spectrum of light; uses inexpensive substrate materials, such as glass and polymers, lowering the cost of the completed cell compared to silicon based solar cells; and is based on non-toxic materials that do not have adverse environmental effects.

Since 2010, the Company filed a series of U.S. utility patent relating to the technologies under development.

MAGNOLIA SOLAR CORPORATION
(A DEVELOPMENT STAGE COMPANY)
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Note 1 – Organization and Nature of Business (continued)

Reverse Merger

On November 19, 2007, the Registrant, formerly known as Mobilis Relocation Services, Inc. (“Mobilis”), was organized under the laws of the State of Nevada. Mobilis formed Magnolia Solar Acquisition Corp., a wholly-owned subsidiary incorporated in the State of Delaware. Mobilis filed a Certificate of Change to its Articles of Incorporation in order to affect a forward split of the number of authorized shares of common stock which they were authorized to issue, and of the then issued and outstanding shares in a ratio of 1.3157895:1. The forward split occurred in February 2010. All share and per share amounts have been reflected herein post-split.

On December 31, 2009, Mobilis entered into an Agreement of Merger and Plan of Reorganization (the “Merger Agreement”) with Magnolia Solar, Inc., a privately held Delaware corporation incorporated on January 8, 2008, and Magnolia Solar Acquisition Corp. (“Acquisition Sub”). Upon closing of the transaction, under the Merger Agreement, Acquisition Sub merged with and into Magnolia Solar, and Magnolia Solar, as the surviving corporation, became a wholly-owned subsidiary of Mobilis. Thereafter, Mobilis changed its name to Magnolia Solar Corporation. The transaction was accounted for as a reverse merger, and the historical financial information is that of Magnolia Solar, Inc.

Going Concern

These consolidated financial statements have been prepared on a going concern basis, which implies the Company will continue to realize its assets and discharge its liabilities in the normal course of business. The Company has been generating revenues from various development contracts with governmental agencies, however the Company has generated losses totaling \$377,149 and \$926,571 for the years ended December 31, 2013 and 2012, respectively, and \$5,304,028 since January 8, 2008 (Inception). While the Company raised funds in a private placement that it consummated in 2009 (raising \$990,000 in \$2,660,000 of Original Issue Discount Senior Secured Convertible Promissory Notes (the “2009 Notes”)), at December 31, 2013 and December 31, 2012, it had cash of \$118,172 and \$135,626, respectively, and will need to raise additional funds to carry out its business plan.

The continuation of the Company as a going concern is dependent upon the ability of the Company to obtain necessary equity financing to continue operations. The Company has had limited operating history to date.

MAGNOLIA SOLAR CORPORATION
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Note 1 – Organization and Nature of Business (continued)

Going Concern (continued)

On December 29, 2011, the 2009 Notes in the aggregate principal amount of \$2,660,000 were amended. Pursuant to the terms of the amendment agreements, (i) 2009 Notes in the aggregate principal amount of \$260,000 converted into an aggregate of 1,040,000 shares of common stock of the Company at an adjusted conversion price of \$0.25 per share, (ii) 2009 Notes in the aggregate principal amount of \$2,000,000 were amended to extend the maturity dates from December 31, 2011 to December 31, 2012 and 2009 Notes in the aggregate principal amount of the remaining \$400,000 were amended to extend the maturity date from December 31, 2011 to December 31, 2013, (iii) 2009 Notes in the aggregate principal amount of \$2,000,000 were amended to adjust the conversion price of such notes from \$1.00 per share to \$0.25 per share, (iv) 2009 Notes in the aggregate principal amount of \$400,000 were amended to provide that such notes shall, from January 1, 2012 onwards, bear interest at the rate of 10% per annum payable on a quarterly basis, upon conversion and at maturity and that such interest may, at the option of the Company, be paid in cash or in shares of common stock of the Company at the interest conversion rate of 90% of the volume weighted average price of the common stock of the Company during the 20 trading days prior to the interest payment date, (v) an aggregate of 1,300,000 shares of common stock of the Company were issued to certain holders of the 2009 Notes, and (vi) the exercise price of warrants to purchase an aggregate of 3,385,300 shares of common stock was adjusted from \$1.25 per share to \$0.50 per share.

On December 21, 2012 and June 27, 2013, the 2009 Notes as described in the preceding paragraph were amended. Pursuant to the terms of the amendment agreements, (i) 2009 Notes in the aggregate principal amount of \$2,000,000 were amended to extend the maturity dates from December 31, 2012 to December 31, 2013, (ii) 2009 Notes in the aggregate principal amount of \$2,000,000 were amended to provide that such notes shall, from January 1, 2013 onwards, bear interest at the rate of 10% per annum payable on a quarterly basis, upon conversion and at maturity and that such interest may, at the option of the Company, be paid in cash or in shares of common stock of the Company at the interest conversion rate of 90% of the volume weighted average price of the common stock of the Company during the 20 trading days prior to the interest payment date, and (iii) the exercise price of warrants to purchase an aggregate of 3,385,300 shares of common stock was adjusted from \$0.50 per share to \$0.25 per share.

On December 29 and 31, 2013, the 2009 Notes as described in the preceding paragraphs were amended. Pursuant to the terms of the amendment agreements, (i) 2009 Notes in the aggregate principal amount of \$2,400,000 were amended to extend the maturity dates from December 31, 2013 to December 31, 2014, and (ii) the exercise price of the warrants to purchase an aggregate of 3,385,300 shares of common stock was adjusted from \$0.25 per share to \$0.10 per share. Additionally, the Company also agreed to extend the expiration date of warrants to purchase an aggregate of 2,660,000 shares of common stock from December 31, 2014 to December 31, 2016.

MAGNOLIA SOLAR CORPORATION
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Note 1 – Organization and Nature of Business (continued)

Going Concern (continued)

There can be no assurance that additional funds will be available when needed from any source or, if available, will be available on terms that are acceptable to the Company. If the Company were to default on its indebtedness, then holders of the notes may foreclose on the debt and seize the Company's assets which may force the Company to suspend or cease operations altogether. These consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. These factors raise substantial doubt regarding the ability of the Company to continue as a going concern.

The Company may need to raise additional capital to expand operations to the point at which the Company can achieve profitability. The terms of equity or debt that may be raised may not be on terms acceptable by the Company. If adequate funds cannot be raised outside of the Company, the Company may suspend or cease operations altogether.

The development of renewable energy and energy efficiency marks a new era of energy exploration in the United States. The Company continues to explore low cost alternatives for energy solutions which are in line with United States government initiatives for renewable energy sources. The Company hopes that these factors will mitigate the current unstable factors in the United States economy.

Note 2 - Summary of Significant Accounting Policies

Development Stage Company

The Company is considered to be in the development stage as defined in ASC 915, *Accounting and Reporting by Development Stage Enterprises*. The Company has devoted substantially all of its efforts to the development of their thin film solar cell technology in the development contracts with governmental agencies they have entered into, corporate formation and the raising of capital. The Company has generated revenues from agreements entered into that are for the development of their products and not the sales of their products. These contracts are one-time contracts that support the Company's development. The Company anticipates emerging from the development stage in 2015 upon completion of the development of their products.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles.

MAGNOLIA SOLAR CORPORATION
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Note 2 - Summary of Significant Accounting Policies (continued)

Principles of Consolidation

The Company applies the guidance of Topic 810 "Consolidation" of the FASB Accounting Standards Codification to determine whether and how to consolidate another entity. Pursuant to ASC Paragraph 810-10-15-10 all majority-owned subsidiaries—all entities in which a parent has a controlling financial interest—shall be consolidated except (1) when control does not rest with the parent, the majority owner; (2) if the parent is a broker-dealer within the scope of Topic 940 and control is likely to be temporary; (3) consolidation by an investment company within the scope of Topic 946 of a non-investment-company investee. Pursuant to ASC Paragraph 810-10-15-8, the usual condition for a controlling financial interest is ownership of a majority voting interest, and, therefore, as a general rule ownership by one reporting entity, directly or indirectly, of more than 50 percent of the outstanding voting shares of another entity is a condition pointing toward consolidation. The power to control may also exist with a lesser percentage of ownership, for example, by contract, lease, agreement with other stockholders, or by court decree. The Company consolidates all less-than-majority-owned subsidiaries, if any, in which the parent's power to control exists.

The consolidated financial statements include all accounts of the entities at December 31, 2013 and 2012 as follows:

Name of consolidated subsidiary or entity	State or other jurisdiction of incorporation or organization	Date of incorporation or formation (date of acquisition, if applicable)	Attributable interest at December 31, 2013 and 2012
Magnolia Solar, Inc.	Delaware, U.S.A.	January 8, 2008	100%

All inter-company balances and transactions have been eliminated.

Use of Estimates

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

MAGNOLIA SOLAR CORPORATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 2 - Summary of Significant Accounting Policies (continued)

Accounts Receivable

For financial reporting, current earnings are charged and an allowance is credited with a provision for doubtful accounts based on experience. Accounts deemed uncollectible are charged against this allowance. Receivables are reported on the balance sheet net of such allowance. The Company monitors its exposure for credit losses and maintains allowances for anticipated losses. The Company believes no allowance for doubtful accounts is necessary at December 31, 2013 and 2012. The Company does not charge interest on past due accounts.

Property and Equipment

Property and equipment are stated at cost and are depreciated on a straight-line basis over their estimated useful lives (from three to seven years). Additions, renewals, and betterments, unless of a minor amount, are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

Deferred Financing Fees

The costs incurred in connection with obtaining debt financing will be capitalized as deferred financing costs and amortized using the effective interest method over the term of the debt.

Impairment of Long-Lived Assets

The Company reviews their recoverability of long-lived assets on a periodic basis whenever events and changes in circumstances have occurred which may indicate a possible impairment. The assessment for potential impairment will be based primarily on the Company's ability to recover the carrying value of its long-lived assets from expected future cash flows from its operations on an undiscounted basis. If such assets are determined to be impaired, the impairment recognized is the amount by which the carrying value of the assets exceeds the fair value of the assets. Fixed assets to be disposed of by sale will be carried at the lower of the then current carrying value or fair value less estimated costs to sell. The Company's management has determined that the fair value of long-lived assets exceeds the book value and thus no impairment charge is necessary as of December 31, 2013 and 2012.

Fair Value of Financial Instruments

In accordance with ASC 820, *Fair Value Measurements and Disclosures*, the carrying amount reported in the consolidated balance sheets for cash and cash equivalents, accounts receivable, accounts payable, and accrued expenses approximate fair value because of the immediate or short-term maturity of these financial instruments. The Company does not utilize derivative instruments.

Income Taxes

The Company accounts for income taxes utilizing the liability method of accounting. Under the liability method, deferred taxes are determined based on differences between financial statement and tax bases of assets and liabilities at enacted tax rates in effect in years in which differences are expected to reverse. Valuation allowances are established, when necessary, to reduce deferred tax assets to amounts that are expected to be realized.

MAGNOLIA SOLAR CORPORATION
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Note 2 - Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments and other short-term investments with maturity of three months or less, when purchased, to be cash equivalents. The Company had no cash equivalents as of December 31, 2013 and 2012.

Revenue Recognition

Revenue is recognized from private and public sector contracts that are time and material type contracts. These revenues are recognized in accordance with ASC 605, *Revenue Recognition*. The Company recognizes revenue when; (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been rendered; (3) the seller's price to the buyer is fixed or determinable and (4) collectability is reasonably assured.

The Company assesses whether fees are fixed or determinable at the time of sale and recognizes revenue if all other revenue recognition requirements are met. The Company's standard payment terms are net 30. Payments that extend beyond 30 days from the contract date but that are due within twelve months are generally deemed to be fixed or determinable based on the Company's successful collection history on such arrangements, and thereby satisfy the required criteria for revenue recognition.

Revenue from inception to December 31, 2013 has been primarily from research and development grants or contracts to develop solar cells using the Company's technology.

Uncertainty in Income Taxes

The Company follows ASC 740-10, *Accounting for Uncertainty in Income Taxes*. This interpretation requires recognition and measurement of uncertain income tax positions using a "more-likely-than-not" approach. ASC 740-10 is effective for fiscal years beginning after December 15, 2006. Management has adopted ASC 740-10 for 2008, and they evaluate their tax positions on an annual basis. The Company's policy is to recognize both interest and penalties related to unrecognized tax benefits expected to result in payment of cash within one year are classified as accrued liabilities, while those expected beyond one year are classified as other liabilities. The Company has not recorded any interest or penalties since its inception.

The Company files income tax returns in the U.S. federal tax jurisdiction and various state tax jurisdictions. The tax years for 2010 to 2012 remain open for examination by federal and/or state tax jurisdictions. The Company is currently not under examination by any other tax jurisdictions for any tax year.

MAGNOLIA SOLAR CORPORATION
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Note 2 - Summary of Significant Accounting Policies (continued)

Loss Per Share of Common Stock

Basic net loss per common share is computed using the weighted average number of common shares outstanding. Diluted earnings per share (EPS) include additional dilution from common stock equivalents, such as stock issuable pursuant to the exercise of stock options and warrants. Common stock equivalents are not included in the computation of diluted earnings per share when the Company reports a loss because to do so would be anti-dilutive for periods presented. The following is a reconciliation of the computation for basic and diluted EPS:

	December 31, 2013	December 31, 2012
Net loss	<u>\$ (377,149)</u>	<u>\$ (926,571)</u>
Weighted-average common shares outstanding (Basic)	30,839,830	27,179,474
Weighted-average common stock Equivalents		
Stock options	-	-
Warrants	<u>3,785,300</u>	<u>3,785,300</u>
Weighted-average common shares outstanding (Diluted)	<u>34,625,130</u>	<u>30,964,774</u>

Stock based compensation

The Company applies ASC No. 718 and ASC Subtopic No. 505-50, *Equity-Based Payments to Non Employees* to options and other stock based awards issued to nonemployees. In accordance with ASC No. 718 and ASC Subtopic No. 505-50, the Company uses the Black-Scholes option pricing model to measure the fair value of the options at the measurement date.

Recently Issued Accounting Standards

During July 2013, the FASB issued an Accounting Standards Update No. 2013-11, "Income Taxes (Topic 740) - Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists ("ASU 2013-11)". The objective of ASU 2013-11 is to clarify the financial presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date. ASU 2013-11 is effective for fiscal years, and interim periods within those years beginning after December 15, 2013. The Company does not expect that the adoption of ASU 2013-11 will have a significant impact on the presentation of its financial statements.

MAGNOLIA SOLAR CORPORATION
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Note 2 - Summary of Significant Accounting Policies (continued)

Recently Issued Accounting Standards (continued)

In July 2012, the FASB issued ASU 2012-02, *Intangibles – Goodwill and Other (Topic 350): Testing Indefinite - Lived Intangible Assets for Impairment*, on testing for indefinite-lived intangible assets for impairment. The new guidance provides an entity to simplify the testing for a drop in value of intangible assets such as trademarks, patents, and distribution rights. The amended standard reduces the cost of accounting for indefinite-lived intangible assets, especially in cases where the likelihood of impairment is low. The changes permit businesses and other organizations to first use subjective criteria to determine if an intangible asset has lost value. The amendments to U.S. GAAP will be effective for fiscal years starting after September 15, 2012. The Company's adoption of this accounting guidance does not have a material impact on the consolidated financial statements and related disclosures.

There were other updates recently issued, most of which represented technical corrections to the accounting literature or application to specific industries and are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

Note 3 - Stockholders' Equity

The Company has 75,000,000 shares of common stock, par value of \$0.001 per share authorized.

Shares

Prior to the Reverse Merger as discussed in Note 1, the Company issued 4,473,686 shares of common stock between January and March 2008 at prices ranging from \$0.01 to \$0.02 per share for a total of \$53,000 cash.

In accordance with the Reverse Merger, the Company cancelled 1,973,684 shares of common stock and issued 21,330,000 shares to the former shareholders of Magnolia Solar, Inc. As a result of these transactions, as of December 31, 2009, there were 23,830,000 shares of common stock issued and outstanding.

The Company effectuated a 1.3157895:1 forward stock split in February 2010, in accordance with the Merger Agreement which resulted in 23,830,000 shares of common stock issued and outstanding.

On March 10, 2010, the Company issued 75,000 shares of common stock at its fair value price (\$0.90 per share) for legal services resulting in a value of \$67,500.

On November 22, 2010, the Company issued 25,000 shares of common stock in at its fair value price (\$0.60 per share) for consulting services in the value of \$15,000.

On February 10, 2011, the Company issued 50,000 shares of common stock at its fair value price (\$0.37 per share) for consulting services for a value of \$18,500.

MAGNOLIA SOLAR CORPORATION
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Note 3 - Stockholders' Equity (continued)

In April 2011, the Company issued 250,000 shares of common stock at its fair value price (\$0.181 per share) for consulting services for a value of \$45,250.

On October 11, 2011, the Company issued 100,000 shares of common stock at its fair value price (\$0.15 per share) for consulting services for a value of \$15,000.

On December 29, 2011, the Company issued 1,040,000 shares upon conversion of the aggregate principal amount of \$260,000 of 2009 Notes. The Company further issued 1,300,000 shares of common stock at its fair value price (\$0.21) in connection with the amendment of the 2009 Notes for a value of \$273,000.

In April 2012, the Company issued 230,000 shares of common stock at its contract price for consulting services for a value of \$230,000.

In May 2012, the Company issued 109,162 shares of common stock at its fair value price (\$0.09 per share) in lieu of interest payment for a value of \$10,000.

In June 2012, the Company issued 100,000 shares of common stock at its contract price for consulting services for a value of \$100,000.

In July 2012, the Company issued 100,000 shares of common stock at its contract price for consulting services for a value of \$100,000.

In July 2012, the Company issued 108,663 shares of common stock at its fair value price (\$0.09 per share) in lieu of interest payment for a value of \$10,000.

In August 2012, the Company issued 150,000 shares of common stock at its contract price for consulting services for a value of \$150,000.

In November 2012, the Company issued 124,238 shares of common stock at its fair value price (\$0.09 per share) in lieu of interest payment for a value of \$10,000.

In November 2012, the Company issued 75,000 shares of common stock at its contract price for consulting services for a value of \$75,000.

In December 2012, the Company issued 500,000 shares of common stock for consulting services for a value of \$35,000 at a fair market value price of \$0.07 per share.

In January 2013, the Company issued 211,078 shares of common stock at its fair value price (\$0.05 per share) in lieu of interest payment for a value of \$10,000.

MAGNOLIA SOLAR CORPORATION
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Note 3 - Stockholders' Equity (continued)

In April 2013, the Company issued 286,250 shares of common stock for consulting services for a value of \$16,660 at a fair market value price of \$0.06 per share.

In May 2013, the Company issued 1,675,978 shares of common stock at its fair value price (\$0.04 per share) in lieu of interest payment for a value of \$60,000.

In August 2013, the Company issued 1,823,708 shares of common stock at its fair value price (\$0.04 per share) in lieu of interest payment for a value of \$60,000.

In August 2013, the Company issued 140,625 shares of common stock for consulting services for a value of \$4,500 at a fair market value price of \$0.06 per share.

In October 2013, the Company issued 1,398,601 shares of common stock at its fair value price (\$0.05 per share) in lieu of interest payment for a value of \$60,000.

In October 2013, the Company issued 131,965 shares of common stock for consulting services for a value of \$4,500 at a fair market value price of \$0.07 per share.

As of December 31, 2013, the Company had 33,835,268 shares issued and outstanding.

Warrants

Following the closing of the Reverse Merger in December 2009, the Company issued five-year callable warrants (the "2009 Warrants") to purchase an aggregate of 2,660,000 shares of common stock exercisable at \$1.25 per share to investors in a private placement (the "2009 Private Placement") and further issued seven year placement agent warrants to purchase an aggregate of 725,300 shares of common stock exercisable at \$1.05 per share. On December 29, 2011, the exercise price of both the 2009 Warrants and placement agent warrants was reduced to \$0.50 per share. On December 21, 2012, the exercise price of the 2009 Warrants and placement agent warrants was reduced to \$0.25 per share. On December 23, 2013, the exercise price of the 2009 Warrants and placement agent warrants was further reduced to \$0.10 per share. Additionally, the Company also agreed to extend the expiration date of the 2009 Warrants from December 31, 2014 to December 31, 2016.

On August 15, 2011, the Company issued 400,000 warrants for public relations services. The warrants vest immediately, and are for a term of 5 years with a strike price of \$0.50 per share. The warrants have been valued at \$59,534 and are reflected in the consolidated financial statements for the year ended December 31, 2013.

MAGNOLIA SOLAR CORPORATION
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Note 3 - Stockholders' Equity (continued)

As of December 31, 2013, the following warrants are outstanding:

Balance – December 31, 2008	-	
Issued – in the 26.6 units	2,660,000	\$ 0.10
Issued – to Placement Agent	725,300	\$ 0.10
Balance – December 31, 2009	3,385,300	\$ 0.10
Balance – December 31, 2010	3,385,300	\$ 0.10
Issued – for public relations	400,000	\$ 0.50
Balance – December 31, 2011	3,785,300	\$ 0.14
Balance – December 31, 2012	3,785,300	\$ 0.14
Balance – December 31, 2013	3,785,300	\$ 0.14

Note 4 - Property and Equipment

Property and equipment consisted of the following at December 31, 2013 and December 31, 2012:

	December 31, 2013	December 31, 2012
Office equipment and computers	\$ 6,106	\$ 6,106
Furniture and fixtures	2,182	2,182
	<u>8,288</u>	<u>8,288</u>
Accumulated depreciation	(7,353)	(6,551)
	<u><u>\$ 935</u></u>	<u><u>\$ 1,737</u></u>

The Company incurred \$802 and \$2,347, respectively, in depreciation expense for each of the years ended December 31, 2013 and 2012.

Note 5 - Deferred Financing Costs

The Company incurred financing costs of \$609,776 in connection with the 2009 Private Placement. These costs were capitalized and are charged to amortization expense over the life of the promissory notes. As of December 31, 2013, the deferred financing fees are fully amortized.

MAGNOLIA SOLAR CORPORATION
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Note 6 - License Agreement with Related Party

The Company has entered into a 10-year, renewable, exclusive license with Magnolia Optical Technologies, Inc. ("Magnolia Optical") on April 30, 2008 for the exclusive rights of the technology related to the application of Optical's solar cell technology. Magnolia Optical shares common ownership with the Company.

The Company is amortizing the license fee of \$356,500 over the 120 month term of the Agreement. Accumulated amortization as of December 31, 2013 and 2012 was \$202,017 and \$166,367, respectively. Amortization expense for each of the years ended December 31, 2013 and 2012 was \$35,650. The Company's management has determined that the fair value of the license exceeds the book value and thus no further impairment or amortization is necessary as of December 31, 2013.

Note 7 – Original Issue Discount Senior Secured Convertible Promissory Note

Original Notes

Following the closing of the Reverse Merger in December 2009, the Company issued 26.6 units in the 2009 Private Placement consisting of an aggregate of \$2,660,000 of 2009 Notes and 2009 Warrants exercisable into an aggregate of 2,660,000 shares of common stock exercisable at \$1.25 per share, for \$50,000 per unit for aggregate proceeds to the Company of \$990,000. In addition, placement agent warrants to purchase an aggregate of 725,300 shares of common stock exercisable at \$1.05 per share were issued. The 2009 Notes are secured by a first-priority security interest in the assets of the Company. Holders of the 2009 Notes and warrants issued in the 2009 Private Placement also have the right to "piggyback" registration of the shares underlying the 2009 Notes and warrants.

Prior to the amendment and restatement of the 2009 Notes, the 2009 Notes were originally due December 31, 2011 and convertible at the option of the holder, into shares of the Company's common stock at an initial conversion rate of \$1.00 per share.

Amended Notes

On December 29, 2011, the Company entered into amendment agreements with holders of the 2009 Notes and 2009 Warrants. Pursuant to the terms of the amendment agreements, (i) 2009 Notes in the aggregate principal amount of \$260,000 were converted into an aggregate of 1,040,000 shares of common stock of the Company at an adjusted conversion price of \$0.25 per share, (ii) 2009 Notes in the aggregate principal amount of \$2,000,000 were amended to extend the maturity dates from December 31, 2011 to December 31, 2012 and 2009 Notes in the aggregate principal amount of the remaining \$400,000 were amended to extend the maturity date from December 31, 2011 to December 31, 2013, (iii) 2009 Notes in the aggregate principal amount of \$2,000,000 were amended to adjust the conversion price of such notes from \$1.00 per share to \$0.25 per share, (iv) 2009 Notes in the aggregate principal amount of \$400,000 were amended to provide that such notes shall, from January 1, 2012 onwards, bear interest at the rate of 10% per annum payable on a quarterly basis, upon conversion and at maturity and that such interest may, at the option of the Company, be paid in cash or in shares of common stock of the Company at the interest conversion rate of 90% of the volume weighted average price of the common stock of the Company during the 20 trading days prior to the interest payment date, (v) an aggregate of 1,300,000 shares of common stock of the Company were issued to certain holders of the 2009 Notes, and (vi) the exercise price of warrants to purchase an aggregate of 3,385,000 shares of common stock was adjusted from \$1.25 per share to \$0.50 per share.

MAGNOLIA SOLAR CORPORATION
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Note 7 – Original Issue Discount Senior Secured Convertible Promissory Note (continued)

On December 21, 2012 and on June 27, 2013, the 2009 Notes as described in the preceding paragraph were amended. Pursuant to the terms of the amendment agreements, (i) 2009 Notes in the aggregate principal amount of \$2,000,000 were amended to extend the maturity dates from December 31, 2012 to December 31, 2013, (ii) 2009 Notes in the aggregate principal amount of \$2,000,000 were amended to provide that such notes shall, from January 1, 2013 onwards, bear interest at the rate of 10% per annum payable on a quarterly basis, upon conversion and at maturity and that such interest may, at the option of the Company, be paid in cash or in shares of common stock of the Company at the interest conversion rate of 90% of the volume weighted average price of the common stock of the Company during the 20 trading days prior to the interest payment date, and (iii) the exercise price of the warrants to purchase an aggregate of 3,385,300 shares of common stock was adjusted from \$0.50 per share to \$0.25 per share. Upon amendment of the notes, interest was calculated on the entire \$2,400,000 of promissory notes at a rate of 10% per year. Interest expense was accrued in the amount of \$60,000 per quarter and shares are issued in lieu of cash payments.

On December 29 and 31, 2013 the 2009 Notes as described in the preceding paragraph were amended. Pursuant to the terms of the amendment agreements, (i) 2009 Notes in the aggregate principal amount of \$2,400,000 were amended to extend the maturity dates from December 31, 2013 to December 31, 2014, (ii) the exercise price of warrants to purchase an aggregate of 3,385,300 shares of common stock was adjusted from \$0.25 per share to \$0.10 per share. Additionally, the Company also agreed to extend the expiration date of warrants to purchase an aggregate of 2,660,000 shares of common stock from December 31, 2014 to December 31, 2016.

As of December 31, 2013, the Company issued 5,451,428 shares of its common stock in lieu of interest payments in the aggregate of \$220,000 relating to the 2009 Notes in the aggregate principal of \$2,400,000.

As of December 31, 2013, the entire \$2,400,000 balance of the amended 2009 Notes remains outstanding. In the transaction, the Company recognized a discount of \$1,670,000 which was amortized over the original life of the 2009 Notes. The discount represented the original issue discount. In addition, the Company determined that the value of the warrants in the transaction of \$412,830 as a discount to the 2009 Notes. This discount was being amortized as well over the original life of the 2009 Notes.

As of December 31, 2013, \$2,400,000 of the 2009 Notes are classified as a current liability. The modifications made to the debt instruments, did not constitute a material modification under ASC 470-50.

MAGNOLIA SOLAR CORPORATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 8 – Provision for Income Taxes

Deferred income taxes are determined using the liability method for the temporary differences between the financial reporting basis and income tax basis of the Company's assets and liabilities. Deferred income taxes are measured based on the tax rates expected to be in effect when the temporary differences are included in the Company's tax return. Deferred tax assets and liabilities are recognized based on anticipated future tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective tax bases.

As of December, 2013, there is no provision for income taxes, current or deferred.

	December 31, 2013
Net operating losses	\$ 1,005,500
Valuation allowance	(1,005,500)
	\$ -

At December 31, 2013, the Company had a net operating loss carry forward in the amount of approximately \$2,957,000 available to offset future taxable income through 2033. The Company established valuation allowances equal to the full amount of the deferred tax assets due to the uncertainty of the utilization of the operating losses in future periods.

A reconciliation of the Company's effective tax rate as a percentage of income before taxes and federal statutory rate for the year ended December 31, 2013 is summarized below.

Federal statutory rate	(34.0)%
State income taxes, net of federal	0.0
Valuation allowance	34.0
	0.0%

MAGNOLIA SOLAR CORPORATION
(A DEVELOPMENT STAGE COMPANY)
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DECEMBER 31, 2013

Note 9 – Commitments and Contingencies

Office Lease

The Company leases office space at two locations that expire between January 31, 2015 and December 31, 2015. Rent expense for the Company's facilities for the years ended December 31, 2013 and 2012 totaled \$17,282 and \$17,316, respectively.

The future minimum lease payments due under the above mentioned non-cancelable lease agreements are as follows:

Year ending December 31,

2014	\$ 17,712
2015	<u>5,227</u>
	<u>\$ 22,939</u>

Contract Related Fees

As part of the contract to develop its products, the Company has agreed to pay the contractor 1.5% of future New York state manufactured sales, and 5% of future non-New York state manufactured sales until the entire funds paid by the contractor have been repaid, or 15 years, whichever comes first. As of December 31, 2013, the Company has \$2,802,271 of contract related expenses, all of which will be owed to the contractor, contingent upon the sale of the Company's product.

Note 10 - Concentration of Credit Risk

The Company maintains its cash in one bank deposit account, which at times may exceed the federally insured limits of \$250,000 that exist through December 31, 2013. At December 31, 2013 and 2012, the Company did not have any uninsured deposits.

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Note 10 - Concentration of Credit Risk (continued)

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of accounts receivable. The Company extends credit based on the customers' financial conditions. The Company does not require collateral or other security to support customer receivables. Credit losses, when realized, have been within the range of management's expectations. To further reduce credit risk associated with accounts receivable, the Company performs periodic credit evaluations of its customers.

Concentrations in Accounts Receivable:	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Customer A	70%	55%
Customer B	16%	16%
Customer C	13%	*
Customer D	*	29%

Concentrations in Revenue:	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Customer A	47%	*
Customer B	37%	55%
Customer C	12%	36%

* Customer did not exceed 10% for respective year

Note 11 - Fair Value Measurements

The Company adopted certain provisions of ASC Topic 820. ASC 820 defines fair value, provides a consistent framework for measuring fair value under generally accepted accounting principles and expands fair value financial statement disclosure requirements. ASC 820's valuation techniques are based on observable and unobservable inputs. Observable inputs reflect readily obtainable data from independent sources, while unobservable inputs reflect our market assumptions. ASC 820 classifies these inputs into the following hierarchy:

- Level 1 Quoted prices in active markets for identical assets or liabilities. The Company's Level 1 assets consist of cash and cash equivalents.
- Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices 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.
- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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Note 11 - Fair Value Measurements (continued)

Financial assets and liabilities measured at fair value on a recurring basis are summarized below:

December 31, 2013

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash	\$ 118,172	\$ -	\$ -	\$ 118,172
Total assets	<u>\$ 118,172</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 118,172</u>
Original Issue Discount				
Senior Secured Convertible Promissory Notes	\$ -	\$ -	\$ 2,400,000	\$ 2,400,000
Total liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,400,000</u>	<u>\$ 2,400,000</u>

December 31, 2012

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash	\$ 135,626	\$ -	\$ -	\$ 135,626
Total assets	<u>\$ 135,626</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 135,626</u>
Original Issue Discount				
Senior Secured Convertible Promissory Notes	\$ -	\$ -	\$ 2,400,000	\$ 2,400,000
Total liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,400,000</u>	<u>\$ 2,400,000</u>

MAGNOLIA SOLAR CORPORATION
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DECEMBER 31, 2013

Note 11 - Fair Value Measurements (continued)

Original Issue Discount
Senior Secured Convertible

	<u>Promissory Notes</u>
Balance, January 1, 2011	\$ 1,459,209
Realized gains/(losses)	-
Unrealized gains/(losses) relating to instruments still held at the reporting date	-
Purchases, sales, issuances and settlements, net	-
Discount on notes	-
Amortization of discount on notes	1,200,791
Conversion of notes to common stock	<u>(260,000)</u>
Balance, December 31, 2011	<u>\$ 2,400,000</u>
Realized gains/(losses)	-
Unrealized gains/(losses) relating to instruments still held at the reporting date	-
Purchases, sales, issuances and settlements, net	-
Discount on notes	-
Amortization of discount on notes	-
Balance, December 31, 2012	<u>\$ 2,400,000</u>
Balance, December 31, 2013	<u>\$ 2,400,000</u>

Note 12 – Subsequent Events

On February 17, 2014, the Company issued 1,048,950 shares of common stock for payment of interest in lieu of cash.

On March 11, 2014, the Company issued 94,737 shares of common stock for services rendered in lieu of cash.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Based upon our evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective, as of December 31, 2013, in ensuring that material information that we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the fourth quarter of the year ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act as a process designed by, or under the supervision of, a company's principal executive and principal financial officers and effected by a company's board of directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2013. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control — Integrated Framework.

Based on our assessment, our management has concluded that, as of December 31, 2013, our internal control over financial reporting is effective based on those criteria.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permanently exempt smaller reporting companies.

Item 9B. Other Information.

The following disclosure would have otherwise been filed on Form 8-K under the heading "Item 3.02 Unregistered Sales of Equity Securities":

On February 17, 2014, we issued 1,048,950 shares of common stock for payment of interest in lieu of cash.

The securities were offered and sold pursuant to an exemption from the registration requirements under Section 4(2) of the Securities Act of 1933, as amended and Rule 506 of Regulation D promulgated thereunder since, among other things, the transactions did not involve a public offering and the securities were acquired for investment purposes only and not with a view to or for sale in connection with any distribution thereof.

PART III**Item 10. Directors, Executive Officers and Corporate Governance.****Executive Officers and Directors**

The following persons are our executive officers and directors and hold the positions set forth opposite their respective names.

Name	Age	Position with the Company
Dr. Ashok K. Sood	66	President, Chief Executive Officer and Director
Dr. Yash R. Puri	66	Executive Vice-President, Chief Financial Officer and Director

Biographies*Dr. Ashok K. Sood, President, Chief Executive Officer and Director*

Dr. Ashok Sood is President, Chief Executive Officer and as a Director of Magnolia Solar since its inception. Prior to joining Magnolia Solar, Dr Sood had over 35-years' experience in developing and managing solar cells, optical, and optoelectronics technology and products for a start-up company and several major corporations, including Lockheed-Martin, BAE Systems, Loral, Honeywell, and Mobil-Tyco Solar Energy Corporation (Joint Venture between Mobil Oil and Tyco). Dr. Sood was instrumental in development and managed optical and optoelectronics technology/ Programs.

Recently, Dr. Sood has managed the development of new technologies for anti-reflective coatings for solar cells and defense applications. He has also been actively engaged in working with several solar cell technologies that broaden the solar spectrum absorption and improve both voltage and current output of the cells to enhance their efficiency. Previously, he has been leading design and development of optoelectronics devices using CdS, CdTe, HgCdTe, GaN, AlGaIn, InGaIn and ZnO for various defense applications, solar cells for space, and commercial applications. Dr. Sood has led many efforts resulting in DoD/NASA programs developing the technology / products and supporting their transition to manufacturing. He also led various industry and university teams bridging centers of excellence across the United States with industry led programs.

Since joining Magnolia, Dr. Sood has focused his efforts on using nanotechnology for developing high performance thin film detectors and solar cells. His understanding of technology and funding opportunities is an asset to Magnolia Solar.

Dr. Sood received his Ph.D. and M.S. in Engineering from the University of Pennsylvania and has an M.S. and a B.S. in Physics (Honors) from Delhi University in India. At the University of Pennsylvania, he attended Physics courses given by two Nobel Laureates. His Ph.D. dissertation was on the study of optoelectronic properties of PbS/CdS for detector and laser applications in the visible to near infrared spectral bands. Dr. Sood has also taken several management courses and also attended professional development programs organized by the Wharton School at the University of Pennsylvania.

Dr. Sood is a member of IEEE and the SPIE. He has chaired sessions on optical and nanotechnology at conferences of those organizations. He has also been on several expert panels for future direction of Thin Film solar cells. As a co-founder of Magnolia Solar, and expert in the thin-film solar area, Dr. Sood's experience and qualifications are essential to the Board of Directors.

As a founder of our subsidiary, Magnolia Solar, and expert in the thin-film solar area, Mr. Sood's experience and qualifications are essential to the Board of Directors.

Dr. Yash R. Puri, Executive Vice President, Chief Financial Officer and Director

Dr. Yash R. Puri was appointed our Executive Vice President, Chief Financial Officer and as a Director on December 31, 2009. He brings many years of photovoltaic technology and applications experience both in the private sector and in the academia. Dr. Puri brings experience in startup environment and growth management to the Magnolia team.

Previously from 1997 until 1999 Dr. Puri was VP of Finance for GT Equipment Technologies, Inc., (presently known as GT Advanced Technologies, Inc., NASDAQ: GTAT), equipment manufacturer serving the semiconductor and the photovoltaic industries. He helped this high technology startup, formed in 1994, to grow to revenue of about \$20 million. The company won many rewards and much recognition; it was a New England finalist in the Ernst & Young Entrepreneur of the Year award. In this position, he was actively involved in running a high-technology business, and he successfully negotiated a \$3.5 million line of

credit with a major bank, established an audit relationship with one of the big-five accounting firms, established a foreign sales corporation, implemented a R&D credit program to reduce tax liabilities, and established company-wide management software to integrate manufacturing and financial operations. Near the end of his term there, he also successfully negotiated the company's first subordinated debt issue.

Dr. Puri is also a Professor of Finance and Chairman of the Finance Department at the University of Massachusetts. Dr. Puri was Principal Investigator of a photovoltaic commercialization project as well as several other grants, and has been a director of a technology commercialization program for engineering students, Chairman of the Management and Finance Department, and acting Associate Dean. In these positions, he successfully managed several externally funded projects and developed many years of experience in technology and growth management.

Dr. Puri holds a B.S. in Physics, a M.S. in Solid State Physics, and a M.B.A. from the University of Delhi. He also holds a M.B.A. in Finance and a D.B.A. in International Business from Indiana University, Bloomington. He has published many papers and has made numerous conference presentations.

As a founder of our subsidiary, Magnolia Solar, and many years of financial expertise in the photovoltaic industry, Mr. Puri's experience and qualifications are essential to the Board of Directors.

Board of Directors

Our Board of Directors are elected by the vote of a majority in interest of the holders of our voting stock and hold office until the expiration of the term for which he or she was elected and until a successor has been elected and qualified.

A majority of the authorized number of directors constitutes a quorum of the Board for the transaction of business. The directors must be present at the meeting to constitute a quorum. However, any action required or permitted to be taken by the Board may be taken without a meeting if all members of the Board individually or collectively consent in writing to the action.

Director or Officer Involvement in Certain Legal Proceedings

Our directors and executive officers were not involved in any legal proceedings as described in Item 401(f) of Regulation S-K in the past ten years.

Board Independence

We currently have two directors serving on our Board of Directors, Mr. Sood and Mr. Puri. We are not a listed issuer and, as such, are not subject to any director independence standards. Using the definition of "independent director," as defined by Section 5605(a)(2) of the rules of the Nasdaq Stock Market, neither Mr. Sood and Mr. Puri would be considered an independent director of the Company.

Committees of the Board of Directors

We have not formally designated a nominating committee, an audit committee, a compensation committee, or committees performing similar functions. Based on the size of our company, our Board of Directors has not yet designated such committees.

Code of Ethics

We have not yet adopted a Code of Ethics although we expect to as we develop our infrastructure and business.

Board Leadership Structure and Role in Risk Oversight

Although we have not adopted a formal policy on whether the Chairman and Chief Executive Officer positions should be separate or combined, we have traditionally determined that it is in the best interests of the Company and its shareholders to combine these roles. Dr. Sood has served as our Chairman since the reverse merger on December 31, 2009. Prior to reverse merger, he served as President, Chief Executive Officer and Chairman of Magnolia Solar, our wholly owned subsidiary, since its inception in January 2008. Due to the small size and early stage of the Company, we believe it is currently most effective to have the Chairman and Chief Executive Officer positions combined.

Our Board of Directors receives and reviews periodic reports from management, auditors, legal counsel, and others, as considered appropriate regarding our company's assessment of risks. Our Board of Directors focuses on the most significant risks facing our company and our company's general risk management strategy, and also ensure that risks undertaken by us are consistent with the Board's appetite for risk. While the Board oversees our company's risk management, management is responsible for day-to-day risk management processes. We believe this division of responsibilities is the most effective approach for addressing the risks facing our Company.

Item 11. Executive Compensation.**Summary Compensation Table**

The table below sets forth, for the last two fiscal years, the compensation earned by each of our principal executive officer and principal financial officers during the last fiscal year ("named executive officers"). No other executive officer had annual compensation in excess of \$100,000 during the last fiscal year.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Option Awards (\$)	All Other Compensation (\$)	Total (\$)
Dr. Ashok K. Sood	2013	83,200	5,000		6,720(1)	
President and CEO	2012	62,150	5,000	-	22,950(1)	90,100
Dr. Yash R. Puri,	2013	43,200	5,000		27,840(1)	
Exec. VP and CFO	2012	33,750	5,000	-	35,910(1)	74,660

(1) Represents accrued but unpaid salary.

Outstanding Equity Awards at Fiscal Year-End

There were no outstanding unexercised options, unvested stock, and/or equity incentive plan awards issued to our named executive officers as of December 31, 2013.

Employment Agreements

We have not entered into employment agreements with any of our executive officers.

Director Compensation

Our directors currently do not receive monetary compensation for their service on the Board of Directors. Directors may receive compensation for their services and reimbursement for their expenses as shall be determined from time to time by resolution of the Board.

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

The following tables set forth certain information as of March 24, 2014 regarding the beneficial ownership of our common stock, by (i) each person or entity who, to our knowledge, owns more than 5% of our common stock; (ii) our executive officers; (iii) each director; and (iv) all of our executive officers and directors as a group. Unless otherwise indicated in the footnotes to the following table, each person named in the table has sole voting and investment power and that person's address is c/o Magnolia Solar Corporation, 54 Cummings Park, Suite 316, Woburn, MA 01801. Shares of common stock subject to options, warrants, or other rights currently exercisable or exercisable within 60 days of March 24, 2014, are deemed to be beneficially owned and outstanding for computing the share ownership and percentage of the stockholder holding such options, warrants or other rights, but are not deemed outstanding for computing the percentage of any other stockholder.

Name of Beneficial Owner	Number of Shares Beneficially Owned	Percentage Beneficially Owned (1)
Dr. Ashok K. Sood President, Chief Executive Officer and Director	8,300,000(2)	23.73%
Dr. Yash R. Puri Executive Vice President, Chief Financial Officer and Director	8,100,000	23.16%

Alan Donenfeld Paragon Capital Advisors LLC 110 East 59th Street, 22nd fl New York, NY 10022 (3)	3,658,414	9.99%
Larry Butz Daybreak Special Situations Master Fund Ltd. 143 E. Main St Suite 150 Lake Zurich, IL 60047 (4)	3,553,263	9.99%
Sean Lyons Debt Opportunity LLLP 20711 Sterlington Drive Land O' Lakes, FL 34638 (5)	1,761,745	4.99%
All executive officers and directors as a group (two persons)	16,400,000	46.89%

- (1) Based on 34,978,955 shares of our common stock issued and outstanding as of March 24, 2014.
- (2) Includes 200,000 shares of common stock held in the name of Mr. Sood's minor child.
- (3) Mr. Donenfeld has sole voting and dispositive power over 2,000 shares of our common stock. In addition, Mr. Donenfeld has sole voting and dispositive power over 3,656,414 shares of our common stock (including 1,641,803 shares of our common stock underlying warrants and convertible notes) as managing member of Paragon Capital Advisors LLC, the general partner of Paragon Capital LP ("Paragon Capital"). Subject to certain exceptions, we are prohibited from effecting an exercise of the warrants and convertible notes to the extent that, as a result of the exercise and conversion, the holder of such shares beneficially owns more than 9.99% in the aggregate of the outstanding shares of our common stock calculated immediately after giving effect to the issuance of shares of common stock upon such exercise and conversion. The number of shares and the percentage, as the case may be, in this column is reflective of this ownership limitation and accordingly 1,858,197 shares of our common stock issuable upon exercise of warrants and conversion of convertible notes held by Paragon Capital have been excluded. In the event, this ownership limitation were not in effect, Mr. Donenfeld would beneficially own 14.34% of the outstanding shares of our common stock calculated immediately after giving effect to the issuance of shares of common stock upon exercise of the warrants and conversion of convertible notes.
- (4) Mr. Butz has sole voting and dispositive power over 36,000 shares of our common stock. In addition, Mr. Butz has sole voting and dispositive power over 3,522,813 shares of our common stock (including 644,797 shares of our common stock underlying warrants and convertible notes) as managing partner of Daybreak Capital Management LLC, the investment advisor to Daybreak Special Situations Master Fund, Ltd ("Daybreak Fund"). Subject to certain exceptions, we are prohibited from effecting an exercise of the warrants and convertible notes to the extent that, as a result of the exercise and conversion, the holder of such shares beneficially owns more than 9.99% in the aggregate of the outstanding shares of our common stock calculated immediately after giving effect to the issuance of shares of common stock upon such exercise and conversion. The number of shares and the percentage, as the case may be, in this column is reflective of this ownership limitation and accordingly 4,355,203 shares of our common stock issuable upon exercise of warrants and conversion of convertible notes held by Daybreak Fund have been excluded. In the event, this ownership limitation were not in effect, Mr. Butz would beneficially own 19.80% of the outstanding shares of our common stock calculated immediately after giving effect to the issuance of shares of common stock upon exercise of the warrants and conversion of convertible notes.
- (5) Mr. Lyons has shared voting and dispositive power over 1,761,745 shares of our common stock (including 326,560 shares of our common stock underlying warrants and convertible notes) as managing member of Debt Opportunity LLLP ("Debt Opportunity"). Subject to certain exceptions, we are prohibited from effecting an exercise of the warrants and convertible notes to the extent that, as a result of the exercise and conversion, the holder of such shares beneficially owns more than 4.99% in the aggregate of the outstanding shares of our common stock calculated immediately after giving effect to the issuance of shares of common stock upon such exercise and conversion. The number of shares and the percentage, as the case may be, in this column is reflective of this ownership limitation and accordingly 1,673,440 shares of our common stock issuable upon exercise of warrants and conversion of convertible notes held by Daybreak Fund have been excluded. In the event, this ownership limitation were not in effect, Mr. Lyons would beneficially own 9.29% of the outstanding shares of our common stock calculated immediately after giving effect to the issuance of shares of common stock upon exercise of the warrants and conversion of convertible notes.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Except as set forth below, since January 1, 2013 there have been no transactions, whether directly or indirectly, between the Company and any of its officers, directors, more than 5% beneficial holders or their family members.

Magnolia Optical License

Our wholly owned subsidiary, Magnolia Solar, currently licenses our core technology under development from Magnolia Optical, a company controlled by our two executive officers and directors, Ashok Sood and Yash Puri. Under the license, we have been granted an exclusive, fully paid, royalty free, worldwide license to use the intellectual property of Magnolia Optical relating to the design and fabrication of thin-film solar photovoltaic solar cells for the manufacture and sale of thin-film photovoltaic solar cell products and services. In consideration for the license grant, Magnolia Optical shareholders received, after giving effect to the Reverse Merger, 7,130,000 shares of our common stock. The license has an initial term of ten years ending April 30, 2018 and shall automatically continue in effect thereafter unless terminated by either party. The license may be terminated for cause by either party.

Magnolia Solar is amortizing the license fee over the 120 month term of the license. Magnolia Solar's management has determined that the fair value of the license exceeds the book value and thus no further impairment or amortization is necessary as of December 31, 2013. Amortization expense for the year ended December 31, 2013 and December 31, 2012 was \$35,650 and \$35,650, respectively.

Bristol Advisor Agreement

On February 19, 2013, we entered into an agreement appointing Bristol Investment Group, Inc. ("Bristol") as our non-exclusive advisor. Alan Donenfeld, the President and sole shareholder of Bristol, is a beneficial owner of more than 5% of our outstanding shares in the absence of a 4.99% beneficial ownership limitation. Pursuant to the agreement, Bristol shall be entitled to a cash fee equal to 5% of the transaction value if certain transactions are consummated with contacts of Bristol. Bristol shall be entitled to a minimum cash fee of \$150,000 if the transaction value is \$2 million or more. The agreement may be terminated by either party upon 10 days' prior written notice and Bristol has a fee tail of 12 months.

Director Independence

None of our current directors are "independent directors," as that term is defined by listing standards of the national exchanges and SEC rules, including the rules relating to the independence standards of an audit committee and the non-employee director definition of Rule 16b-3 promulgated under the Exchange Act.

Item 14. Principal Accountant Fees and Services.

Audit Fees

The aggregate fees billed by our principal accountant for the audit of our annual financial statements, review of financial statements included in the quarterly reports and other fees that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for the fiscal years ended December 31, 2013 and 2012 were \$24,000 and \$24,000, respectively.

Audit-Related Fees

The aggregate fees billed by our principal accountant for assurance and advisory services that were related to the performance of the audit or review of our financial statements for the fiscal years ended December 31, 2013 and 2012 were \$24,000 and \$26,633.12.

Tax Fees

The aggregate fees billed for professional services rendered by our principal accountant for tax compliance, tax advice and tax planning for the fiscal years ended December 31, 2013 and 2012 were \$1,600 and \$1,600, respectively.

All Other Fees

The aggregate fees billed for products and services provided by our principal accountant for the fiscal years ended December 31, 2013 and 2012 were \$0.

Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors

We do not have an audit committee and as a result our Board of Directors evaluates the scope and cost of the engagement of an auditor before the auditor renders audit and non-audit services.

PART IV**Item 15. Exhibits and Financial Statement Schedules.**

<u>Exhibit No.</u>	<u>Description</u>
3.1	Articles of Incorporation (1)
3.2	Certificate of Change (2)
3.3	Amended and Restated Bylaws (2)
10.1	Amendment Agreement dated December 31, 2013 between Magnolia Solar Corporation and Debt Opportunity Fund LLLP*
10.2	Amendment Agreement dated December 31, 2013 between Magnolia Solar, Inc. and Paragon Capital LP*
10.3	Amendment Agreement dated December 29, 2013 between Magnolia Solar Corporation and Paragon Offshore LP*
10.4	Amendment Agreement dated December 31, 2013 between Magnolia Solar Corporation and Daybreak Special Situations Master Fund, Ltd.*
10.5	Form of Warrant Term Extension Letter*
21	List of Subsidiaries*
23.1	Consent of KBL, LLP*
31.1	Section 302 Certification of Principal Executive Officer*
31.2	Section 302 Certification of Principal Financial Officer*
32.1	Section 906 Certification of Principal Executive Officer*(3)
32.2	Section 906 Certification of Principal Financial Officer*(3)
101	The following materials from Magnolia Solar Corporation's Annual Report on Form 10-K for the year ended December 31, 2013 are formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) Consolidated Statement of Stockholders' Deficit, (iv) the Consolidated Statements of Cash Flow, and (iv) Notes to Consolidated Financial Statements.

* Filed Herewith

- (1) Incorporated by reference to our Registration Statement on Form S-1 filed with the SEC on June 13, 2008.
- (2) Incorporated by reference to our Current Report on Form 8-K filed with the SEC on January 7, 2010.
- (3) In accordance with Item 601 of Regulation S-K, this Exhibit is hereby furnished to the SEC as an accompanying document and is not deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that Section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933.

SIGNATURES

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

MAGNOLIA SOLAR CORPORATION

Date: March 28, 2014

By: /s/ Dr. Ashok K. Sood
Dr. Ashok K. Sood
President, Chief Executive Officer
and Director
(Principal Executive
Officer and Principal Financial
Officer)

Date: March 28, 2014

By: /s/ Dr. Yash R. Puri
Dr. Yash R. Puri
Executive Vice-President, Chief
Financial Officer and Director
(Principal Financial Officer)

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Name</u>	<u>Capacity</u>	<u>Date</u>
<u>/s/ Dr. Ashok K. Sood</u> Dr. Ashok K. Sood	President, Chief Executive Officer and Director (Principal Executive Officer and Principal Financial Officer)	March 28, 2014
<u>/s/ Dr. Yash R. Puri</u> Dr. Yash R. Puri	Executive Vice-President, Chief Financial Officer and Director (Principal Financial Officer)	March 28, 2014

MAGNOLIA SOLAR CORPORATION.

54 Cummings Park

Suite 316

Woburn, MA 01801

December 31, 2013

Re: Magnolia Solar Corporation

Ladies and Gentlemen:

Reference is made to that certain (i) Second Amended and Restated Original Issue Discount Senior Secured Convertible Note of Magnolia Solar Corporation (the "Company") dated December 21, 2012 in the aggregate principal amount set forth in the signature line below held by the undersigned (the "Second Amended Note"), and (ii) Second Amended and Restated Warrant dated December 21, 2012 as evidenced by the warrant number referenced in the signature line below (the "Second Amended Warrant"). Reference is further made to those other notes and/or warrants (the "Other Notes" and "Other Warrants", respectively), originally issued, directly or indirectly, in connection with that certain offering of 26.6 units of the Company that closed on December 31, 2009 and which resulted, either directly or indirectly, in the issuance of the Second Amended Note and Second Amended Warrant.

1. Effective as of the date hereof, the holder of the Second Amended Note and Second Amended Warrant (the "Holder") and the Company hereby agree as follows: (i) the Maturity Date of the Second Amended Note, as such term is defined therein, is extended to December 31, 2014, (ii) the Warrant Price of the Second Amended Warrant, as such term is defined therein, is reduced to \$0.10 per share, and (iii) except as set forth herein, all other terms and conditions of the Second Amended Note and Second Amended Warrant shall remain unamended and in full force and effect.

2. The Holder hereby waives any adjustment under Section 5 of the Second Amended Note and Second Amended Warrant that (i) may arise under the provisions of Section 1 herein, (ii) may arise as a result of the extension of the term of any Other Note, (iii) as a result of the reduction of the Warrant Price of any Other Warrant, and/or (B) may have occurred at any time after the issuance of the Second Amended Note and Second Amended Warrant through to and including the date hereof.

Upon the mutual execution of this agreement, please affix this agreement to the Second Amended Note and Second Amended Warrant held by the undersigned.

Very truly yours,

MAGNOLIA SOLAR CORPORATION

/s/ Ashok K. Sood 12/31/2013

By: Dr. Ashok K. Sood

Title: President and Chief Executive Officer

**Agreed and Accepted
as of the date hereof:**

/s/ Sean Lyons

By: Mr. Sean Lyons

Title: Managing Member, Debt Opportunity Fund, LLLP

Principal Amount of Note: _\$400,000__

Warrant No: __MSC-003A__

MAGNOLIA SOLAR CORPORATION.
54 Cummings Park
Suite 316
Woburn, MA 01801

December 31, 2013

Re: Magnolia Solar Corporation

Ladies and Gentlemen:

Reference is made to that certain (i) Second Amended and Restated Original Issue Discount Senior Secured Convertible Note of Magnolia Solar Corporation (the "Company") dated December 21, 2012 in the aggregate principal amount set forth in the signature line below held by the undersigned (the "Second Amended Note"), and (ii) Second Amended and Restated Warrant dated December 21, 2012 as evidenced by the warrant number referenced in the signature line below (the "Second Amended Warrant"). Reference is further made to those other notes and/or warrants (the "Other Notes" and "Other Warrants", respectively), originally issued, directly or indirectly, in connection with that certain offering of 26.6 units of the Company that closed on December 31, 2009 and which resulted, either directly or indirectly, in the issuance of the Second Amended Note and Second Amended Warrant.

1. Effective as of the date hereof, the holder of the Second Amended Note and Second Amended Warrant (the "Holder") and the Company hereby agree as follows: (i) the Maturity Date of the Second Amended Note, as such term is defined therein, is extended to December 31, 2014, (ii) the Warrant Price of the Second Amended Warrant, as such term is defined therein, is reduced to \$0.10 per share, and (iii) except as set forth herein, all other terms and conditions of the Second Amended Note and Second Amended Warrant shall remain unamended and in full force and effect.

2. The Holder hereby waives any adjustment under Section 5 of the Second Amended Note and Second Amended Warrant that (i) may arise under the provisions of Section 1 herein, (ii) may arise as a result of the extension of the term of any Other Note, (iii) as a result of the reduction of the Warrant Price of any Other Warrant, and/or (B) may have occurred at any time after the issuance of the Second Amended Note and Second Amended Warrant through to and including the date hereof.

Upon the mutual execution of this agreement, please affix this agreement to the Second Amended Note and Second Amended Warrant held by the undersigned.

Very truly yours,

MAGNOLIA SOLAR CORPORATION

/s/ Ashok K. Sood 12/31/2013

By: Dr. Ashok K. Sood

Title: President and Chief Executive Officer

**Agreed and Accepted
as of the date hereof:**

/s/ Alan Donenfeld

By: Mr. Alan Donenfeld

Title: General Partner, Paragon Capital, LP

Principal Amount of Note: _\$700,000_

Warrant No: __MSC-001A__

MAGNOLIA SOLAR CORPORATION.
54 Cummings Park
Suite 316
Woburn, MA 01801

December 29, 2013

Re: Magnolia Solar Corporation

Ladies and Gentlemen:

Reference is made to that certain (i) Second Amended and Restated Original Issue Discount Senior Secured Convertible Note of Magnolia Solar Corporation (the "Company") dated December 21, 2012 in the aggregate principal amount set forth in the signature line below held by the undersigned (the "Second Amended Note"), and (ii) Second Amended and Restated Warrant dated December 21, 2012 as evidenced by the warrant number referenced in the signature line below (the "Second Amended Warrant"). Reference is further made to those other notes and/or warrants (the "Other Notes" and "Other Warrants", respectively), originally issued, directly or indirectly, in connection with that certain offering of 26.6 units of the Company that closed on December 31, 2009 and which resulted, either directly or indirectly, in the issuance of the Second Amended Note and Second Amended Warrant.

1. Effective as of the date hereof, the holder of the Second Amended Note and Second Amended Warrant (the "Holder") and the Company hereby agree as follows: (i) the Maturity Date of the Second Amended Note, as such term is defined therein, is extended to December 31, 2014, (ii) the Warrant Price of the Second Amended Warrant, as such term is defined therein, is reduced to \$0.10 per share, and (iii) except as set forth herein, all other terms and conditions of the Second Amended Note and Second Amended Warrant shall remain unamended and in full force and effect.

2. The Holder hereby waives any adjustment under Section 5 of the Second Amended Note and Second Amended Warrant that (i) may arise under the provisions of Section 1 herein, (ii) may arise as a result of the extension of the term of any Other Note, (iii) as a result of the reduction of the Warrant Price of any Other Warrant, and/or (B) may have occurred at any time after the issuance of the Second Amended Note and Second Amended Warrant through to and including the date hereof.

Upon the mutual execution of this agreement, please affix this agreement to the Second Amended Note and Second Amended Warrant held by the undersigned.

Very truly yours,

MAGNOLIA SOLAR CORPORATION

/s/ Ashok K. Sood 12/29/2013

By: Dr. Ashok K. Sood

Title: President and Chief Executive Officer

**Agreed and Accepted
as of the date hereof:**

/s/ Alan Donenfeld

By: Mr. Alan Donenfeld

Title: General Partner, Paragon Capital Offshore, LP

Principal Amount of Note: _\$300,000__

Warrant No: __MSC-002A__

MAGNOLIA SOLAR CORPORATION.

54 Cummings Park

Suite 316

Woburn, MA 01801

December 31, 2013

Re: Magnolia Solar Corporation

Ladies and Gentlemen:

Reference is made to that certain (i) Second Amended and Restated Original Issue Discount Senior Secured Convertible Note of Magnolia Solar Corporation (the "Company") dated December 21, 2012 in the aggregate principal amount set forth in the signature line below held by the undersigned (the "Second Amended Note"), and (ii) Second Amended and Restated Warrant dated December 21, 2012 as evidenced by the warrant number referenced in the signature line below (the "Second Amended Warrant"). Reference is further made to those other notes and/or warrants (the "Other Notes" and "Other Warrants", respectively), originally issued, directly or indirectly, in connection with that certain offering of 26.6 units of the Company that closed on December 31, 2009 and which resulted, either directly or indirectly, in the issuance of the Second Amended Note and Second Amended Warrant.

1. Effective as of the date hereof, the holder of the Second Amended Note and Second Amended Warrant (the "Holder") and the Company hereby agree as follows: (i) the Maturity Date of the Second Amended Note, as such term is defined therein, is extended to December 31, 2014, (ii) the Warrant Price of the Second Amended Warrant, as such term is defined therein, is reduced to \$0.10 per share, and (iii) except as set forth herein, all other terms and conditions of the Second Amended Note and Second Amended Warrant shall remain unamended and in full force and effect.

2. The Holder hereby waives any adjustment under Section 5 of the Second Amended Note and Second Amended Warrant that (i) may arise under the provisions of Section 1 herein, (ii) may arise as a result of the extension of the term of any Other Note, (iii) as a result of the reduction of the Warrant Price of any Other Warrant, and/or (B) may have occurred at any time after the issuance of the Second Amended Note and Second Amended Warrant through to and including the date hereof.

Upon the mutual execution of this agreement, please affix this agreement to the Second Amended Note and Second Amended Warrant held by the undersigned.

Very truly yours,

MAGNOLIA SOLAR CORPORATION

/s/ Ashok K. Sood 12/31/2013

By: Dr. Ashok K. Sood

Title: President and Chief Executive Officer

**Agreed and Accepted
as of the date hereof:**

/s/ Larry Butz

By: Mr. Larry Butz

Title: Authorized Signatory, Daybreak Special Situations Master Fund, Ltd.

Principal Amount of Note: _\$1,000,000_

Warrant No: __MSC-002A__

MAGNOLIA SOLAR CORPORATION.

54 Cummings Park

Suite 316

Woburn, MA 01801

January __, 2014

Re: Magnolia Solar Corporation

Ladies and Gentlemen:

Reference is made to that certain letter dated December __, 2013 from Magnolia Solar Corporation (the "Company"), a copy of which is attached hereto (the "December Letter"). This letter hereby supplements the December Letter. Any undefined capitalized terms used herein shall bear such meaning as ascribed to them in the December Letter.

1. Effective as of the date of the December Letter, the holder of the Amended Warrant (the "Holder") and the Company hereby agree as follows: (i) the Expiration Date of the Amended Warrant, as such term is defined therein, is extended to December 31, 2016, and (iii) except as set forth herein, all other terms and conditions of the Amended Warrant shall remain unamended and in full force and effect.

2. The Holder hereby waives any adjustment under Section 5 of the Amended Warrant that (i) may arise under the provisions of Section 1 herein, and/or (ii) may arise as a result of the extension of the term of any Other Warrant.

Upon the mutual execution of this agreement, please affix this agreement to the Amended Warrant held by the undersigned.

Very truly yours,

MAGNOLIA SOLAR CORPORATION

By: Dr. Ashok K. Sood

Title: President and Chief Executive Officer

**Agreed and Accepted
as of the date hereof:**

By:
Title:

LIST OF SUBSIDIARIES

Magnolia Solar Corporation has the following subsidiary:

Subsidiary Name	Jurisdiction of Incorporation	Percentage of Ownership
Magnolia Solar, Inc.	Delaware	100%

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 of Magnolia Solar Corporation of our report dated March 28, 2014, relating to the consolidated financial statements which appear in the Form 10-K for the year ended December 31, 2013.

/s/ KBL, LLP

New York, NY

March 28, 2014

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

I, Dr. Ashok K. Sood, certify that:

- (1) I have reviewed this annual report on Form 10-K of Magnolia Solar Corporation for the fiscal year ended December 31, 2013;
- (2) Based on my knowledge, this 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 report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this 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 report;
- (4) The registrant's other certifying officer(s) 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 15d-15(f)) for the registrant and 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 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 with 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 the report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of the annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
- (5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 28, 2014

/s/ Dr. Ashok K. Sood
Dr. Ashok K. Sood
President and Chief Executive Officer (Principal Executive Officer)

CERTIFICATION OF THE PRINCIPAL FINANCIAL OFFICER PURSUANT TO

SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Dr. Yash R. Puri, certify that:

- (1) I have reviewed this annual report on Form 10-K of Magnolia Solar Corporation for the fiscal year ended December 31, 2013;
- (2) Based on my knowledge, this 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 report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this 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 report;
- (4) The registrant's other certifying officer(s) 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 15d-15(f)) for the registrant and 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 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 with 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 the report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of the annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
- (5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 28, 2014

/s/ Dr. Yash R. Puri

Dr. Yash R. Puri
Executive Vice-President and Chief Financial Officer (Principal
Financial Officer)

**CERTIFICATION OF THE PRINCIPAL EXECUTIVE OFFICER
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 Annual Report of Magnolia Solar Corporation, (the "Company") on Form 10-K for year ended December 31, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Dr. Ashok K. Sood, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

Date: March 28, 2014

/s/ Dr. Ashok K. Sood

Dr. Ashok K. Sood

President and Chief Executive Officer (Principal Executive Officer)

**CERTIFICATION OF THE PRINCIPAL EXECUTIVE OFFICER
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 Annual Report of Magnolia Solar Corporation, (the "Company") on Form 10-K for year ended December 31, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Dr. Yash R. Puri, Executive Vice-President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

Date: March 28, 2014

/s/ Dr. Yash R. Puri

Dr. Yash R. Puri

Executive Vice-President and Chief Financial Officer (Principal Financial Officer)