

ORIGINOIL INC  
Form 10-Q  
August 13, 2010

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

Form 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED: JUNE 30, 2010

☐ TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

COMMISSION FILE NUMBER \_\_\_\_\_

ORIGINOIL, INC.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of incorporation or  
organization)

26-0287664

(I.R.S. Employer Identification No.)

5645 West Adams Blvd

Los Angeles, CA 90016

(Address of principal executive offices, Zip Code)

(323) 939-6645

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>

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

The number of shares of registrant's common stock outstanding, as of August 12, 2010 was 161,841,878.

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## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements.

ORIGINOIL, INC.  
(A Development Stage Company)  
BALANCE SHEETS

	June 30, 2010 (Unaudited)	December 31, 2009
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash & cash equivalents	\$ 106,837	\$ 356,179
Prepaid expenses	124,786	32,867
Other receivables	4,400	-
<b>TOTAL CURRENT ASSETS</b>	<b>236,023</b>	<b>389,046</b>
<b>PROPERTY &amp; EQUIPMENT</b>		
Machinery & equipment	1,372	1,372
Furniture & fixtures	27,056	27,056
Computer equipment	23,340	22,268
Leasehold improvements	94,914	94,914
	146,682	145,610
Less accumulated depreciation	(95,883)	(68,898)
<b>NET PROPERTY &amp; EQUIPMENT</b>	<b>50,799</b>	<b>76,712</b>
<b>OTHER ASSETS</b>		
Patent	59,833	45,636
Trademark	4,467	4,467
Security deposit	9,650	9,650
<b>TOTAL OTHER ASSETS</b>	<b>73,950</b>	<b>59,753</b>
<b>TOTAL ASSETS</b>	<b>\$ 360,772</b>	<b>\$ 525,511</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 17,246	\$ 1,391
Accrued expenses	43,229	52,985
Credit card payable	1,135	470
Other payables	12,187	872
<b>TOTAL LIABILITIES</b>	<b>73,797</b>	<b>55,718</b>
<b>SHAREHOLDERS' EQUITY</b>		
Preferred stock, \$0.0001 par value; 50,000 authorized preferred shares	-	-
Common stock, \$0.0001 par value; 500,000,000 authorized common shares 161,841,878 and 159,321,232 shares issued and outstanding	16,185	15,933
Additional paid in capital	7,928,069	7,160,260
Common stock subscription payable	700,036	161,040
Deficit accumulated during the development stage	(8,357,315)	(6,867,440)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>286,975</b>	<b>469,793</b>

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$	360,772	\$	525,511
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The accompanying notes are an integral part of these financial statements

ORIGINOIL, INC.  
(A Development Stage Company)  
STATEMENTS OF OPERATIONS  
(Unaudited)

	Three Months Ended		Six Months Ended		From Inception June 1, 2007 through June 30, 2010
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009	2010
REVENUE	\$ -	\$ -	\$ -	\$ -	\$ -
General & Administrative expense	613,737	669,956	1,117,045	1,195,951	6,894,917
Research & development	186,085	90,695	345,884	221,912	1,406,484
Depreciation & amortization expense	15,489	13,943	26,984	27,886	95,883
TOTAL OPERATING EXPENSES	815,311	774,594	1,489,913	1,445,749	8,397,284
LOSS FROM OPERATIONS BEFORE OTHER INCOME/(EXPENSE)	(815,311)	(774,594)	(1,489,913)	(1,445,749)	(8,397,284)
OTHER INCOME/(EXPENSE)					
Interest income	2	5	6	22	13,675
Dividend income	7	58	32	769	26,648
Capital gains	-	-	-	-	107
Penalties	-	-	-	(86)	(86)
Interest expense	-	-	-	-	(375)
		-		-	
TOTAL OTHER INCOME	9	63	38	705	39,969
NET LOSS	\$ (815,302)	\$ (774,531)	\$ (1,489,875)	\$ (1,445,044)	\$ (8,357,315)
BASIC AND DILUTED LOSS PER SHARE	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)	
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING					
BASIC AND DILUTED	161,841,878	147,210,610	160,795,052	145,703,702	

The accompanying notes are an integral part of these financial statements

ORIGINOIL, INC.  
(A Development Stage Company)  
STATEMENT OF SHAREHOLDERS' EQUITY

	Common stock Shares	Common stock Amount	Additional Paid-in Capital	Common Stock Payable	Deficit Accumulated during the Development Stage	Total
Balance at December 31, 2009	159,321,232	\$ 15,933	\$ 7,160,260	\$ 161,040	\$ (6,867,440)	\$ 469,793
Issuance of common stock for subscription payable in March 2010 (732,000 shares issued at \$0.22 per share) (Unaudited)	732,000	73	160,967	(161,040)	-	-
Issuance of common stock for cash in March 2010 (1,788,646 shares issued at \$0.22 per share) (Unaudited)	1,788,646	179	393,304	-	-	393,483
Cash received for common stock subscription payable (Unaudited)	-	-	-	700,036	-	700,036
Stock compensation expense (Unaudited)	-	-	216,840	-	-	216,840
Stock issuance cost (Unaudited)	-	-	(3,302)	-	-	(3,302)
Net loss for the six months ended June 30, 2010 (Unaudited)	-	-	-	-	(1,489,875)	(1,489,875)
Balance at June 30, 2010 (Unaudited)	161,841,878	\$ 16,185	\$ 7,928,069	\$ 700,036	\$ (8,357,315)	\$ 286,975

The accompanying notes are an integral part of these financial statements

ORIGINOIL, INC.  
(A Development Stage Company)  
STATEMENTS OF CASH FLOWS  
(Unaudited)

	Six Months Ended		From Inception June 1, 2007 through
	June 30, 2010	June 30, 2009	June 30, 2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net loss	\$ (1,489,875)	\$ (1,445,044)	\$ (8,357,315)
Adjustment to reconcile net loss to net cash used in operating activities			
Depreciation & amortization	26,984	27,886	95,883
Contributed capital by investor	-	-	375
Common stock issued for services	-	-	5,000
Stock compensation expense	216,840	-	2,428,146
Changes in Assets and Liabilities			
(Increase) Decrease in:			
Prepaid expenses	(91,919)	9,043	(124,786)
Other receivables	(4,400)	-	(4,400)
Other assets	-	-	(9,650)
Increase (Decrease) in:			
Accounts payable	15,855	(14,385)	17,246
Accrued expenses	(9,756)	2,117	43,229
Credit card payable	665	(2,304)	1,135
Other payable	11,316	(17,405)	12,187
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(1,324,290)</b>	<b>(1,440,092)</b>	<b>(5,892,950)</b>
<b>CASH FLOWS USED IN INVESTING ACTIVITIES:</b>			
Patent and trademark expenditures	(14,197)	(5,789)	(59,833)
Purchase of fixed assets	(1,072)	(4,704)	(146,682)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(15,269)</b>	<b>(10,493)</b>	<b>(206,515)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from common stock subscription payable	700,036	1,151,350	1,665,276
Proceeds for issuance of common stock, net	390,181	100,000	4,541,026
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>1,090,217</b>	<b>1,251,350</b>	<b>6,206,302</b>
<b>NET INCREASE/(DECREASE) IN CASH</b>	<b>(249,342)</b>	<b>(199,235)</b>	<b>106,837</b>
<b>CASH &amp; CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>356,179</b>	<b>580,055</b>	<b>-</b>
<b>CASH &amp; CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 106,837</b>	<b>\$ 380,820</b>	<b>\$ 106,837</b>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW  
INFORMATION



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Interest paid	\$	-	\$	-	\$	-
Taxes paid	\$	800	\$	800	\$	1,600

SUPPLEMENTAL SCHEDULE OF NON-CASH  
TRANSACTIONS

Stock issued for marketing services	\$	-	\$	-	\$	105,705
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The accompanying notes are an integral part of these financial statements

ORIGINOIL, INC.  
(A Development Stage Company)  
NOTES TO FINANCIAL STATEMENTS-UNAUDITED  
JUNE 30, 2010

1. BASIS OF PRESENTATION

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all normal recurring adjustments considered necessary for a fair presentation have been included. Operating results for the six month period ended June 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010. For further information refer to the financial statements and footnotes thereto included in the Company's Form 10-K for the year ended December 31, 2009.

Going Concern

The accompanying financial statements have been prepared on a going concern basis of accounting, which contemplates continuity of operations, realization of assets and liabilities and commitments in the normal course of business. The accompanying financial statements do not reflect any adjustments that might result if the Company is unable to continue as a going concern. The Company does not generate significant revenue, and has negative cash flows from operations, which raise substantial doubt about the Company's ability to continue as a going concern. The ability of the Company to continue as a going concern and appropriateness of using the going concern basis is dependent upon, among other things, additional cash infusion. As discussed in Note 3, the Company has obtained funds from its shareholders since its inception through June 30, 2010. Management believes this funding will continue, and is also actively seeking new investors. Management believes the existing shareholders and the prospective new investors will provide the additional cash needed to meet the Company's obligations as they become due, and will allow the development of its core of business.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of OriginOil, Inc. is presented to assist in understanding the Company's financial statements. The financial statements and notes are representations of the Company's management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Development Stage Activities and Operations

The Company has been in its initial stages of formation and for the six months ended June 30, 2010, had no revenues. A development stage activity is one in which all efforts are devoted substantially to establishing a new business and even if planned principal operations have commenced, revenues are insignificant.

Revenue Recognition

The Company will recognize revenue when services are performed, and at the time of shipment of products, provided that evidence of an arrangement exists, title and risk of loss have passed to the customer, fees are fixed or determinable, and collection of the related receivable is reasonably assured. To date, the Company has had no

revenues and is in the development stage.

#### Cash and Cash Equivalent

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

#### Loss per Share Calculations

Loss per Share dictates the calculation of basic earnings per share and diluted earnings per share. Basic earnings per share are computed by dividing income available to common shareholders by the weighted-average number of common shares available. Diluted earnings per share is computed similar to basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. No shares for employee options or warrants were used in the calculation of the loss per share as they were all anti-dilutive. The Company's diluted loss per share is the same as the basic loss per share for the six months ended June 30, 2010 and 2009, as the inclusion of any potential shares would have had an anti-dilutive effect due to the Company generating a loss.

ORIGINOIL, INC.  
(A Development Stage Company)  
NOTES TO FINANCIAL STATEMENTS-UNAUDITED  
JUNE 30, 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock-Based Compensation

Share based payments applies to transactions in which an entity exchanges its equity instruments for goods or services, and also applies to liabilities an entity may incur for goods or services that are to follow a fair value of those equity instruments. We will be required to follow a fair value approach using an option-pricing model, such as the Black Scholes option valuation model, at the date of a stock option grant. The deferred compensation calculated under the fair value method would then be amortized over the respective vesting period of the stock option. The adoption of share based compensation has no material impact on our results of operations.

Reclassification

Certain expenses for the period ended June 30, 2009 were reclassified to conform with the expenses for the period ended June 30, 2010.

Recently Issued Accounting Pronouncements

Management reviewed accounting pronouncements issued during the six months ended June 30, 2010, and no pronouncements were adopted during the period.

3. CAPITAL STOCK

During the six months ended June 30, 2010, the Company issued 2,520,646 shares of common stock at a price of \$0.22 per share for \$554,523 in cash; received \$200,000 of common stock subscription at a price of \$0.11 per share to purchase 1,818,181 shares of common stock. Also, the Company received \$500,036 of common stock subscriptions at a price of \$0.22 per share through a private placement to purchase 2,272,891 shares of common stock, collectively with Class A warrants to purchase one share of common stock exercisable at a price of \$0.25 per share within six months or Class B warrants to purchase one share of common stock exercisable at a price of \$0.35 per share within three years after the completion of this offering. During the six months ended June 30, 2009, the Company issued 4,521,000 shares of common stock at a price of \$0.20 per share for cash of \$904,200. Also, the Company received \$1,151,350 in common stock subscription to purchase 5,756,750 shares of common stock through a private placement.

ORIGINOIL, INC.  
(A Development Stage Company)  
NOTES TO FINANCIAL STATEMENTS-UNAUDITED  
JUNE 30, 2010

4. STOCK OPTIONS AND WARRANTS

The Company adopted a Stock Option Plan for the purposes of granting stock options to its employees and others providing services to the Company, which reserves and sets aside for the granting of Options for Fifteen Million (15,000,000) shares of Common Stock. Options granted under the Plan may be either Incentive Options or Nonqualified Options and shall be administered by the Company's Board of Directors ("Board"). Each Option shall be exercisable to the nearest whole share, in installments or otherwise, as the respective Option agreements may provide. Notwithstanding any other provision of the Plan or of any Option agreement, each Option shall expire on the date specified in the Option agreement, which date shall not be later than the tenth (10th) anniversary from the effective date of this option. The stock options vest as follows: 1/48 every 30 days thereafter until the remaining stock options have vested. The stock options are exercisable for a period of five years from the date of grant at an exercise price between \$0.23 and \$0.32 per share.

	6/30/2010
Risk free interest rate	1.98%-2.29%
Stock volatility factor	1%
Weighted average expected option life	5 years
Expected dividend yield	None

A summary of the Company's stock option activity and related information follows:

	6/30/2010	Weighted average exercise price
Number of Options		
Outstanding, beginning of period	4,150,000	\$ 0.31
Granted	2,850,000	0.23
Exercised	-	-
Expired	(360,000)	-
Outstanding, end of period	6,640,000	\$ 0.30
Exercisable at the end of period	891,874	\$ 0.28
Weighted average fair value of options granted during the period		\$ -

The stock-based compensation expense recognized in the statement of operations during the six months ended June 30, 2010 is \$216,840.

#### Warrants

During the six months ended June 30, 2010, the Company issued 1,020,000 warrants with a fair value of \$122,800 determined using the Black Scholes pricing model.

6/30/2010

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	2.41% -
Risk free interest rate	2.5%
Stock volatility factor	1%
Weighted average expected option life	5 years
Expected dividend yield	None

ORIGINOIL, INC.  
(A Development Stage Company)  
NOTES TO FINANCIAL STATEMENTS-UNAUDITED  
JUNE 30, 2010

4. STOCK OPTIONS AND WARRANTS (Continued)

During the six months ended June 30, 2010, the Company issued warrants for services. A summary of the Company's warrant activity and related information follows:

	June 30, 2010	Weighted average exercise price
	Options	
Outstanding -beginning of period	12,000,000	\$ 0.31
Granted	1,020,000	0.24
Exercised	-	-
Forfeited	-	-
Outstanding - end of period	13,020,000	\$ 0.27

5. SUBSEQUENT EVENTS

Management evaluated subsequent events as of the date of the financial statements pursuant to TOPIC 855.

As of 1 June 2010, the Company executed a purchase order with MBD Energy Limited for the sale of equipment in the amount of \$108,000. The Company will provide listed products to the Customer on a one year lease-to-own basis, comprising a total of four escalating payments per product to be made quarterly in advance. The Company has received as of August 2010, the first quarterly payment of \$4,500 on account that was due within five (5) business days after notifying the Customer of the availability of one of the products.

Item 2. Management's Discussion and Analysis or Plan of Operation.

This Form 10-K contains forward-looking statements that are subject to a number of risks and uncertainties, many of which are beyond our control, which may include statements about our:

- business strategy;
- financial strategy;
- intellectual property;
- production;
- future operating results; and
- plans, objectives, expectations and intentions contained in this report that are not historical.

All statements, other than statements of historical fact included in this report, regarding our strategy, intellectual property, future operations, financial position, estimated revenues and losses, projected costs, prospects, plans and objectives of management are forward-looking statements. When used in this report, the words "could," "believe," "anticipate," "intend," "estimate," "expect," "project" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. All forward-looking statements speak only as of the date of this report. You should not place undue reliance on these forward-looking statements. Although we believe that our plans, intentions and expectations reflected in or suggested by the forward-looking statements we make in this report are reasonable, we can give no assurance that these plans, intentions or expectations will be achieved. These statements may be found under "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business," "Properties," as well as in this report generally. Actual events or results may differ materially from those discussed in forward-looking statements as a result of various factors, including, without limitation, the risks outlined under "Risk Factors" and matters described in this report generally. In light of these risks and uncertainties, there can be no assurance that the forward-looking statements contained in this filing will in fact occur.

Organizational History

The Company was incorporated on June 1, 2007 under the laws of the State of Nevada. We have only been engaged in our current and proposed business operations since June 2007, and to date, we have been primarily involved in research and development activities. Our principal offices are located at 5645 West Adams Blvd., Los Angeles, California 90016. Our telephone number is (323) 939-6645. Our website address is [www.originoil.com](http://www.originoil.com). Our website and the information contained on our website are not incorporated into this Memorandum.

Overview of Business

The Company is currently developing a technology to produce a bio-fuel from algae through a cost-effective, high-speed manufacturing process to replace petroleum in various applications such as diesel, gasoline, jet fuel, plastics and solvents. Algae, unlike other bio-fuel feedstock such as corn and sugarcane, do not destroy vital farmlands and rainforests, disrupt global food supplies and create new environmental problems.

The Company's industrial process, with its patent pending devices and methods, optimizes this environment to help algae cells grow at their natural maximum rate - achieving a doubling of the algae population in as little as a few hours. The process then goes on to control the harvesting and oil extraction cycles in a high-speed, round-the-clock, streamlined industrial production of algae oil. Instead of waiting hundreds of millions years for algae to become oil, the Company's breakthrough technology and process can transform algae into oil in a matter of days.



The Company's business model is based on licensing this technology to customers such as fuel refiners, chemical and oil companies. The Company is not in the business of producing and marketing oil or fuel, based on algae, as an end product.

We have only been engaged in our current and proposed business operations since June 2007, and to date, we have been primarily involved in research and development activities. We are a development stage company and presently, we do not have revenues related to the manufacture of our products. Our auditors have prepared our financial statements assuming that we will continue as a going concern. We have not generated any revenue, and we have negative cash flows from operations, which raise substantial doubt about our ability to continue as a going concern.

## Algae Oil Industry Overview and OriginOil's System

Algae can take many forms, such as seaweed (macro-algae) and kelp. But for oil, we use micro-algae as found in outdoor ponds. Micro-algae is actually a highly efficient biological factory capable of consuming carbon dioxide (CO<sub>2</sub>), and converting it into a high-density natural oil through photosynthesis.

Much of the world's petroleum is actually made up of algae that decomposed over hundreds of millions of years. But by drilling for, extracting, and burning that oil now, we are releasing the carbon dioxide that was absorbed long ago. This "carbon positive" effect is what causes global warming.

Currently, industrialized societies are emitting phenomenal quantities of CO<sub>2</sub> into the atmosphere and this will take many years to slow significantly. It should be a global policy priority to find the most efficient way to reabsorb that CO<sub>2</sub>. Aquatic plants like algae are by far the most efficient CO<sub>2</sub> absorbers on our planet; they do little else. Algae, then, provides the most rational way to mitigate our problems with CO<sub>2</sub> (and other pollutants), thus easing the danger of fossil fuels and providing a ready alternate stream of carbon-neutral fuels and chemicals. Algae cultivated today absorbs CO<sub>2</sub> from the atmosphere or other CO<sub>2</sub> emitted sources. Burning freshly produced algae oil releases only what it absorbed in the first place, resulting in a balanced "carbon neutral" effect. This makes algae oil an environment-friendly oil.

## Oil Generation from Algae

Algae reproduce by cellular division. They divide and divide until they fill the space available to them and have consumed all nutrients in it.

In the right environment, fresh algae cells grow and divide exponentially, doubling every few hours, while absorbing all available nutrients, CO<sub>2</sub> and light energy.

## An Industrial Process for Algae

OriginOil's industrial process, with its patent pending devices and methods, optimizes this environment to help algae cells grow at their natural maximum rate - achieving a doubling of the algae population in as little as a few hours. The process then goes on to control the harvesting and oil extraction cycles in a high-speed, round-the-clock, streamlined industrial production of algae oil.

Instead of waiting hundreds of millions years for algae to become oil, OriginOil's breakthrough technology and process can transform algae into oil in a matter of days.

## Operating at the Quantum Level

OriginOil's patent-pending technology, Quantum Fracturing, is based on the science of mass transfer and fluid fracturing and addresses some of the challenges of industrializing algae oil production.

A quantum is the smallest quantity of some physical property that a system can possess. We use the term to illustrate how we fracture the nutrient delivery environment into very small parts, down to a micron, or a millionth of a meter. Using Quantum Fracturing, water, carbon dioxide and other nutrients are fractured at very high pressure to create a slurry of micron-sized nutrition-bubbles, which is then channeled to the algae culture awaiting it in a lower-pressure growth vessel, the Helix BioReactor™.

This process achieves total and instantaneous distribution of nutrients to the algae culture without fluid disruption or aeration. The pressure differentials between the two zones substantially increase contact and exchange between the micronized nutrients and the algae culture.

#### Ultimate Oil Production Efficiency

The increased contact between culture and nutrients makes for very high absorption of CO<sub>2</sub> and nutrients in the growth phase and most importantly, by increasing the CO<sub>2</sub> absorption during this phase, the algae cell will produce a much greater volume of hydrocarbons (oil).

## Two Stages of Algae Production

OriginOil's patent-pending algae oil production system employs Quantum Fracturing in two major stages of algae production:

### Growth Stage:

CO<sub>2</sub> and nutrients are fractured into a micro-bubble slurry and injected directly into the algae culture for complete contact and nutrient absorption.

### Extraction Stage:

Water and special catalysts are fractured at high ultrasonic intensity, using very little energy, to crack the algae membrane to facilitate extracting its oil content.

Quantum Fracturing technology greatly enhances the efficiency of algae production and makes it cost-effective and viable.

## The Ultimate Algae Growth Environment

The heart of the OriginOil system is the Helix BioReactor™, an advanced algae growth system that can grow multiple layers of algae biomass around-the-clock with daily harvests.

In a natural pond, the sun only illuminates one layer of algae growth, down to about half an inch below the surface. In contrast, the Helix BioReactor™ features a rotating vertical shaft with very low energy lights arranged in a helix or spiral pattern, which results in a theoretically unlimited number of growth layers. Additionally, each lighting element is engineered to produce specific light waves and frequencies for optimal algae growth.

The helix structure also serves as the bioreactor's nutrient delivery system, through which the Quantum Fractured nutrients, including CO<sub>2</sub>, is evenly delivered to the entire algae culture, monitored and tuned for optimum growth.

This algae growth environment will allow the algae culture to replicate exponentially — doubling the entire colony in as little as a few hours — making for very efficient, low-cost, low-footprint industrial algae production.

## Enabling a Distributed Oil Model

To reach the production levels necessary to realistically replace petroleum as an energy source, an algae oil production system must be fully scalable.

The OriginOil System is designed to be both modular and scalable. While it can function as a stand-alone oil producing system, it can also be connected in a stacked or parallel network to produce a large number of barrels per day.

OriginOil's patent pending system design facilitates large scale algae production through the horizontal and vertical "stacking" of many Helix BioReactors™ into an integrated network of fully automated, portable, and remotely monitored growth units.

Further, by the use of such modular design, a large number of Helix BioReactors™ can be connected to a small number of extraction units to achieve both economies of scale and full industrialization of algae production.

Additionally, OriginOil systems can be transported and placed anywhere in the world to operate as fully integrated, round-the-clock oil-producing plants.

By enabling distributed oil production, we can help decentralize the oil and energy industry, empowering local energy production in villages, townships, communities, states and countries. Someday we will no longer need to import oil.

### Speeding Up the Process Further

Algae growers already know that algae can expand rapidly if space is available. Once fully matured — and the space is filled — the culture will then stabilize and grow very little.

If the space was expanded by a factor of ten, for example, then the algae population would explode to occupy this new volume - in as little as a day.

This rapid expansion is called the 'log phase,' or 'logarithmic phase,' of growth where cells divide exponentially. Typically, growers incubate an algae population in a smaller vessel and then release it into a larger tank for production, one batch at a time.

OriginOil's Helix BioReactor™ growth vessel adds the time-saving efficiency of combining the incubation vessel and larger tanks into one system. Once the algae matures in the Helix BioReactor™, a portion of the culture is transferred out for extraction, and the remaining 'green' water is purified and returned to the growth tank. It is then allowed to re-expand into the Helix BioReactor™, creating a new batch, and the process is repeated.

With this system there is no need to re-incubate each batch: the remaining algae culture is already mature and is ready to re-enter the log phase after each harvest and replenishment of growth environment.

The Cascading Production design makes possible continuous daily harvesting of algae without incubation, thereby enabling a vital property of industrialized algae oil production.

### Making the Process Viable

To overcome the final hurdle, and to make the entire algae-to-oil process viable, OriginOil devised a method for energy efficient algae oil extraction and does not use hazardous chemical solvents.

The process of breaking down algae cells to release oil, known as lysing, has long represented a challenge — and a final hurdle — for the algae-to-oil industry. Algae cell walls are difficult to break down. Mechanical methods are energy-intensive and often ineffective. Commonly used chemical solvents such as benzene, ether or hexane are toxic and require special handling. Such practices increase operating costs and make it harder to site algae production systems.

In OriginOil's extraction unit, the flowing algae biomass is first sent through a shielded wave guide system where it receives low-wattage, frequency-tuned microwave bursts, weakening the cell walls. Then, Quantum Fracturing is then applied to these pre-cracked cells to complete the oil extraction. Quantum Fracturing, when used for extraction, creates an ultrasonic effect where the algae cell breaks down much in the same way that a high-frequency sound wave breaks glass.

Overcoming this final hurdle enables low-energy, environmentally-safe and viable, industrialized algae oil production.

### A Modular Oil Producing System

The OriginOil System is designed to be modular. It can function as a standalone oil producing system, or can be connected in a parallel network to produce a large number of barrels per day output. OriginOil Systems can be placed anywhere to operate as round-the-clock oil-producing plants.

The Company will commercialize its technology through an integrated system of global partners, including:

- Original Equipment Manufacturers (OEMs)
- Country and Regional Partners
- Device and Component Manufacturers
- Service and Maintenance Providers
- Customized Application Developers

A new oil can be cleanly manufactured in an industrialized process using the OriginOil System. By enabling distributed oil production we can help transform the oil and energy industry from a centralized to a distributed model. The ability to generate clean, carbon-neutral energy anywhere can empower industrialization in villages, townships, communities, states and countries. There will be no need to import oil.

### Enabling a Distributed Oil Model

The OriginOil System is designed to be modular. It can function as a standalone oil producing system, or can be connected in a parallel network to produce a large number of barrels per day output. OriginOil Systems can be placed anywhere to operate as round-the-clock oil-producing plants.

By enabling distributed oil production we can help transform the oil and energy industry from a centralized to a distributed model. The ability to generate clean, carbon-neutral energy anywhere can empower industrialization in villages, townships, communities, states and countries. There will be no need to import oil. A new oil can be cleanly manufactured in an industrialized process using the OriginOil System.

### Petroleum Alternatives Are Our Future

Driven by rising oil prices, Kyoto protocol and global warming concerns, countries worldwide are quickly embracing petroleum alternatives such as ethanol and biodiesel, which can curb their dependence on imported oil with minimal infrastructure change. The market for a new oil is proven and expanding rapidly.

OriginOil's breakthrough technology, based on algae, is targeted at fundamentally changing the world's source of oil without disrupting the environment or food resources. An endless supply of this new oil can be used in many of products like diesel, gasoline, jet fuel, plastics and solvents without the global warming effects of petroleum.

Only by industrializing the manufacture of new oil can the current and future demands of global industrialization be met.

### Benefits of Algae Oil Production

#### Cleaner to Produce and Burn

Petroleum contains sulfur and other toxins. It is a heavy pollutant. Drilling operations are highly noxious; crude spills on sea and land are natural catastrophes; and refineries produce heavy pollutants. By contrast, the algae production process generates no toxins — it's a lot like growing grass hydroponically. Oil created using OriginOil technology generates no heavy metals or sulfur when burned, and minimal output of greenhouse gases.

#### Can Be Produced Close to Point of Demand

Petroleum often travels tens of thousands of miles to reach its destination. This adds cost and gives suppliers a stranglehold on consumers. Using OriginOil technology, fuel can now be produced close to the site of usage and demand — virtually eliminating the transport cost of petroleum. In the future, portable OriginOil Systems may be transported to the point of demand and quickly start producing oil for electricity generation or fuel.

#### Does Not Compete with Food

The ethanol boom is already having a disastrous effect on food prices. Fast-rising prices of corn have caused havoc in global food supplies and the commodities markets. Using algae as a feedstock avoids creating shortages in food supplies or markets.

#### Works with Existing Refineries



Unlike other solutions which bypass the existing refining infrastructure, OriginOil's technology enables the production of fully compatible fuels. The petroleum industry has already announced plans to support the refining of biofuels. Of these, algae oil is most like petroleum in structure as it can be readily "cracked" into the lighter components of crude oil such as jet fuel, diesel, gasoline, solvents and plastics.

#### Works With Existing Gas Stations and Vehicles

Most solutions to the energy problem require massive new infrastructure: hybrids require new cars with toxic batteries; hydrogen cars need a new fuel network; and electric cars need their own recharging stations. By contrast, fuel refined from OriginOil systems can be seamlessly integrated into the current petroleum distribution system.

#### A Complete Solution to Produce a New Oil

Companies implementing algae oil production systems will need to know that they can generate product consistently at a competitive price. OriginOil's complete, validated industrial process will ensure that these companies can confidently plan and invest in renewable oil production for the long term.

## Intellectual Property

Since our business is based on licensing of our technology and not manufacturing oil, it is critical to the Company that it achieves one or more patents. We have filed the following patent applications with the U.S. Patent and Trademark Office:

1. On July 28, 2007, to protect the intellectual property rights for “Algae Growth System for Oil Production”. The inventors listed on the patent application are Nicholas Eckelberry and T. Riggs Eckelberry, the Company’s founders. The Company is listed as the assignee. We have received an initial determination from the USPTO that this filing is comprised of multiple inventions.
2. On May 23, 2008, to protect the intellectual property rights for “Apparatus And Method For Optimizing Photosynthetic Growth In a Photo Bioreactor”. The inventors listed on the patent application are Steven Shigematsu and Nicholas Eckelberry. The Company is listed as the assignee. We are still awaiting examination from the USPTO, with respect to this patent application.
3. On May 30, 2008, to protect the intellectual property rights for “Modular Portable Photobioreactor System”. The inventors listed on the patent application are Steven Shigematsu and Nicholas Eckelberry. The Company is listed as the assignee. We are still awaiting examination from the USPTO, with respect to this patent application.
4. On January 6, 2009, to protect the intellectual property rights for “Apparatus And Method For Optimizing Photosynthetic Growth In A Photobioreactor”. The inventor listed on the patent application is Nicholas Eckelberry. The Company is listed as the assignee. We are still awaiting examination from the USPTO, with respect to this patent application.
5. On April 17, 2009, to protect the intellectual property rights for “Device and Method for Separation, Cell Lysing and Flocculation of Algae From Water”. The inventor listed on the patent application is Nicholas Eckelberry. The Company is listed as the assignee. We are still awaiting examination from the USPTO, with respect to this patent application.
6. On August 13, 2010, a provisional filing to protect the intellectual property rights for “Algae Growth Lighting and Control System”. The inventors listed on the patent application are Scott Fraser, Vikram Pattarkine, Ralph Anderson and Nicholas Eckelberry. The Company is listed as the assignee. We are still awaiting examination from the USPTO, with respect to this patent application.
7. On August 13, 2010, a provisional filing to protect the intellectual property rights for “Procedure For Extraction Of Lipids From Algae Without Cell Sacrifice”. The inventors listed on the patent application are Paul Reep and Michael Green. The Company is listed as the assignee. We are still awaiting examination from the USPTO, with respect to this patent application.
8. On September 30, 2009, a provisional filing to protect the intellectual property rights for “Methods and Apparatus for Growing Algae on a Solid Surface”. The inventors listed on the patent application are Scott Fraser and Vikram Pattarkine. The Company is listed as the assignee. We are still awaiting examination from the USPTO, with respect to this patent application.
9. On April 28, 2010, a provisional filing to protect the intellectual property rights for “Multi-plane Growth Apparatus and Method”. The inventor listed on the patent application is Christopher Beaven. The Company is listed as the assignee. We are still awaiting examination from the USPTO, with respect to this patent application.

10. On June 18, 2010, a provisional filing to protect the intellectual property rights for “Bio Energy Reactor”. The inventor listed on the patent application is Michael Green. The Company is listed as the assignee. We are still awaiting examination from the USPTO, with respect to this patent application.

#### Recent Developments

Recently, OriginOil notified MBD Energy Limited (“MBD Energy”) that it is ready to ship a Quantum Fracturing™ System (QFS), designed to maximize algae CO2 absorption with minimal energy, to MBD Energy’s research and development facility at James Cook University in Queensland, Australia. The company’s Single-Step Extraction™ System, designed to efficiently separate algae oil from its biomass, is also scheduled for delivery under a firm Purchase Order of 1 June 2010. The shipment of these products will generate our first revenue in the third quarter.

In May, 2010, we agreed, as part of a multi-phase commercialization program to supply MBD Energy with its algae-to-oil technology platform in progressively larger installations. The first research phase is to be supplied on a one-year lease-to-own basis, with increasing payments to be made quarterly in advance. (Future phases may be supplied under different payment terms). We have received as of August 2010, the first quarterly payment of \$4,500 on account that was due within five business days after notifying MBD Energy of the availability of the QFS product.

Subject to the success of the initial test phase, MBD Energy will purchase significantly larger systems to serve its power station projects in Australia, beginning with a one-hectare pilot plant at Tarong Power Station in South Eastern Queensland, and expanding to full production sites at all three of MBD Energy’s power station projects in Australia. According to MBD Energy, each of its power station projects has the potential to grow to 80-hectare commercial plants, each capable of producing 11 million liters of oil for plastics and transport fuel, and 25,000 tons of drought-proof animal feed annually. MBD Energy estimates that the projects will eventually consume more than half of each power station’s flue-gas emissions.

## Critical Accounting Policies

The Securities and Exchange Commission ("SEC") defines "critical accounting policies" as those that require application of management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Not all of the accounting policies require management to make difficult, subjective or complex judgments or estimates. However, the following policies could be deemed to be critical within the SEC definition.

### Revenue Recognition

The Company will recognize revenue when services are performed, and at the time of shipment of products, provided that evidence of an arrangement exists, title and risk of loss have passed to the customer, fees are fixed or determinable, and collection of the related receivable is reasonably assured. To date, the Company has had no revenues and is in the development stage.

### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the accompanying financial statements. Significant estimates made in preparing these financial statements include the estimate of useful lives of property and equipment, the deferred tax valuation allowance, and the fair value of stock options. Actual results could differ from those estimates.

### Fair Value of Financial Instruments

Fair value of financial Instruments requires disclosure of the fair value information, whether or not recognized in the balance sheet, where it is practicable to estimate that value. As of June 30, 2010, the amounts reported for cash, prepaid expenses, accounts payable, accrued expenses, and approximate the fair value because of their short maturities

### Recently Issued Accounting Pronouncements

Management reviewed accounting pronouncements issued during the three months ended June 30, 2010, and no pronouncements were adopted during the period.

Results of Operations for the three and six months ended June 30, 2010 compared to the three and six months ended June 30, 2009.

### Revenues

Currently the Company is in its development stage and has no revenues.

### Operating Expenses

#### General and Administrative Expenses

General and administrative ("G&A") expenses for the three months ended June 30, 2010 decreased by \$(56,219) to \$613,737 compared to \$669,956 for the three months ended June 30, 2009. G&A expenses for the six months ended June 30, 2010, decreased by \$(78,906) to \$1,117,045 compared to \$1,195,951 for the six months ended June 30, 2009. The overall decrease for the three and six months ended June 30, 2010 was due to the net effect of a decrease in the

Company's overall G&A expenses of \$(226,628) and \$(295,746) respectively, and an increase in non-cash stock compensation of \$170,409 and \$216,840 respectively.

#### Research and Development Cost

Research and development ("R&D") cost for the three months ended June 30, 2010 increased by \$95,390 to \$186,085 compared to \$90,695 for the three months ended June 30, 2009. R&D cost for the six months ended June 30, 2010 increased by \$123,972 to \$345,884 compared to \$221,912 for the six months ended June 30, 2009. The increase in R&D costs was primarily due to an increase in durable items and salaries for product development and testing.

#### Net Loss

Our Net Loss for the three months ended June 30, 2010 increased by \$(40,771) to \$(815,302) compared to \$(774,531) for the three months ended June 30, 2009. Net Loss for the six months ended June 30, 2010 increased by (44,831) compared to the six months ended June 30, 2009. The net increase in Net Loss was due primarily to the increase in non-cash stock compensation expense of \$170,409 and \$216,840, respectively, and a decrease in operating expenses of \$(129,638) and \$(172,009), respectively.

## Liquidity and Capital Resources

As of June 30, 2010, we had \$162,226 of working capital as compared to \$333,328 at December 31, 2009. The decrease of \$(171,102) in working capital was due primarily to ongoing costs of developing the company and preparing its technologies for market.

Net cash used in operating activities was \$(1,324,290) for the six months ended June 30, 2010, compared to \$(1,440,092) for the six months ended June 30, 2009. The decrease of \$(115,802) in net cash used was due to an increase in overall payables, and a increase in prepaid expenses. The Company also had an increase in non-cash expense for stock compensation. The Company is in the development stage and has generated no revenues.

Net cash used in investing activities for the six months ended June 30, 2010 was \$(15,269) compared to \$(10,493) for the six months ended June 30, 2009. The increase of \$4,776 of cash used by investing activities was due to patent expenditures.

Net cash flows provided from financing activities for the six months ended June 30, 2010 was \$1,090,217 compared to \$1,251,350 for the six months ended June 30, 2009. The decrease of \$161,133 in net cash flows provided from financing activities was due to less equity financing.

Our financial statements as of June 30, 2010 have been prepared under the assumption that we will continue as a going concern. Our independent registered public accounting firm has issued their report dated March 31, 2010 that included an explanatory paragraph expressing substantial doubt in our ability to continue as a going concern without additional capital becoming available. Our ability to continue as a going concern ultimately is dependent on our ability to generate a profit which is dependent upon our ability to obtain additional equity or debt financing, attain further operating efficiencies and, ultimately, to achieve profitable operations. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

## Off-Balance Sheet Arrangements

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

## Item 3. Quantitative and Qualitative Disclosures About Market Risk.

N/A.

## Item 4T. Controls and Procedures.

**Evaluation of Disclosure Controls and Procedures.** Under the supervision and with the participation of our management, including our President, Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of the end of the period covered by this report. Based upon that evaluation, our President, Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report were effective such that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to our management to allow timely decisions regarding disclosure. A controls system cannot provide absolute assurance, however, that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have

been detected.

Changes in Internal Control Over Financial Reporting. During the most recent quarter ended June 30, 2010, there has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) ) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II

### Item 1. Legal Proceedings.

We are not a party to any pending legal proceeding, nor is our property the subject of a pending legal proceeding, that is not in the ordinary course of business or otherwise material to the financial condition of our business. None of our directors, officers or affiliates is involved in a proceeding adverse to our business or has a material interest adverse to our business.

### Item 1A.Risk Factors.

Not Applicable.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

### Item 3. Defaults Upon Senior Securities.

Not applicable.

### Item 4. Removed and Reserved

### Item 5. Other Information.

Not applicable.

### Item 6. Exhibits.

Exhibit No.	Title of Document	Location
3.1	Articles of Incorporation	(1)
3.3	By-laws	(2)
31.1	Certification by Chief Executive Officer and Chief Financial Officer, required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act.	Attached
32.1	Certification by Chief Executive Officer and Chief Financial Officer, required by Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code.	Attached

(1) Incorporated by reference to the Company's Registration Statement on Form SB-2 filed with the Securities and Exchange Commission on March 24, 2008

(2) Incorporated by reference to the Company's Registration Statement on Form SB-2 filed with the Securities and Exchange Commission on December 11, 2007.



SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ORIGINOIL, INC.

By: /s/ T Riggs Eckelberry  
T Riggs Eckelberry  
Chief Executive Officer (Principal Executive Officer)  
and Acting Chief Financial Officer (Principal Accounting and Financial Officer)

August 13, 2010