ORIGINCLEAR, INC.
Form 10-Q
November 14, 2017

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: September 30, 2017

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

For the transition period from __________ to __________

Commission File Number: ________________

ORIGINCLEAR, INC.

(Exact name of registrant as specified in its charter)

Nevada	**26-0287664**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

525 S. Hewitt St.

Los Angeles, CA 90013

(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 of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of November 14, 2017, there were 99,756,011 shares of common stock, par value $0.0001 per share, issued and outstanding.

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PART I - FINANCIAL INFORMATION

This Quarterly Report includes forward-looking statements within the meaning of the Securities Exchange Act of 1934 (the “Exchange Act”). These statements are based on management’s beliefs and assumptions, and on information currently available to management. Forward-looking statements include the information concerning our possible or assumed future results of operations set forth under the heading “Management’s Discussion and Analysis of Financial Condition or Plan of Operation.” Forward-looking statements also include statements in which words such as “expect,” “anticipate,” “intend,” “plan,” “believe,” “estimate,” “consider” or similar expressions are used.

Forward-looking statements are not guarantees of future performance. They involve risks, uncertainties and assumptions. Our future results and shareholder values may differ materially from those expressed in these forward-looking statements. Readers are cautioned not to put undue reliance on any forward-looking statements.

Item 1. Financial Statements.

ORIGINCLEAR, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2017 (Unaudited)	December 31, 2016
ASSETS		
CURRENT ASSETS		
Cash	$342,164	$351,321
Contracts receivable, less allowance for doubtful accounts of $50,000 and $50,000 respectively	523,548	382,895
Inventory	13,614	-
Cost in excess of billing	9,238	47,612
Work in progress	84,157	86,085
Prepaid expenses	17,991	42,128
TOTAL CURRENT ASSETS	990,712	910,041
NET PROPERTY AND EQUIPMENT	156,252	161,912
OTHER ASSETS		
Other asset	19,538	19,538
Goodwill	682,145	682,145
Trademark	4,467	4,467
Security deposit	3,500	3,500
TOTAL OTHER ASSETS	709,650	709,650
TOTAL ASSETS	$1,856,614	$1,781,603
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current Liabilities		
Accounts payable and other payable	$830,539	$480,064
Accrued expenses	847,114	715,281
Billing in excess of cost	233,394	-
Customer deposit	113,950	113,950
Warranty reserve	20,000	20,000
Loans payable, current portion	11,090	-
Derivative liabilities	10,728,464	8,702,083
Convertible promissory notes, net of discount of $54,440 and $591,835, respectively	296,722	1,935,233

Total Current Liabilities	13,081,273	11,966,611
Long Term Liabilities		
Loan payable, long term portion	12,282	-
Convertible promissory notes, net of discount of $235,268 and $11,429, respectively	3,080,628	1,613,571
Total Long Term Liabilities	3,092,910	1,613,571
Total Liabilities	16,174,183	13,580,182
SHAREHOLDERS' DEFICIT		
Preferred stock, $0.0001 par value, 25,000,000 shares authorized 6,666 shares of Series B issued and outstanding, respectively	1	1
1,000 shares of Series C issued and outstanding, respectively	-	-
Common stock, $0.0001 par value, 300,000,000 shares authorized 78,151,781 and 21,428,454 equity shares issued and outstanding, respectively	7,815	2,143
Preferred treasury stock, 1,000 and 1,000 shares of Series C outstanding, respectively	-	-
Additional paid in capital	57,564,158	51,428,976
Accumulated other comprehensive loss	(134)	(92)
Accumulated deficit	(71,889,409)	(63,229,607)
TOTAL SHAREHOLDERS' DEFICIT	(14,317,569)	(11,798,579)
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT	$1,856,614	$1,781,603

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

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ORIGINCLEAR, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Sales	$1,112,438	$1,019,919	$2,294,891	$4,321,378
Cost of Goods Sold	949,657	574,105	2,031,334	2,899,507
Gross Profit	162,781	445,814	263,557	1,421,871
Operating Expenses				
Selling and marketing expenses	539,975	303,496	2,165,213	1,419,566
General and administrative expenses	830,444	629,455	1,842,815	1,860,239
Research and development	53,939	106,259	136,582	447,034
Depreciation and amortization expense	12,961	11,331	39,506	33,902
Total Operating Expenses	1,437,319	1,050,541	4,184,116	3,760,741
Loss from Operations	(1,274,538)	(604,727)	(3,920,559)	(2,338,870)
OTHER INCOME (EXPENSE)				
Foreign exchange (loss)	-	(6)	-	(6)
Commitment fee	(736,052)	(787,971)	(1,409,655)	(787,971)
Loss on net change in derivative liability and settlement of debt	(2,693,599)	(7,417,750)	(2,787,138)	(1,959,230)
Interest expense	(173,448)	(206,164)	(542,450)	(641,977)
TOTAL OTHER INCOME (EXPENSE)	(3,603,099)	(8,411,891)	(4,739,243)	(3,389,184)
NET (LOSS) INCOME	$(4,877,637)	$(9,016,618)	$(8,659,802)	$(5,728,054)
BASIC AND DILUTED (LOSS) EARNING PER SHARE ATTRIBUTABLE TO SHAREHOLDERS’	$(0.090)	$(0.657)	$(0.222)	$(0.492)
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING, BASIC AND DILUTED	54,334,415	13,724,144	38,977,842	11,644,611

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

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ORIGINCLEAR, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' DEFICIT

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017

	Preferred stock		Common stock		Additional Paid-in	Accumulated Other Comprehensive	Accumulated	
	Shares	Amount	Shares	Amount	Capital	loss	Deficit	Total
Balance at December 31, 2016	7,666	$ 1	21,433,571	$ 2,143	$ 51,428,976	$ (92)	$ (63,229,607)	$ (11,798,579)
Common stock issuance for cash	-	-	10,775,722	1,078	1,296,672	-	-	1,297,750
Common stock issuance for conversion of debt	-	-	9,321,555	932	1,234,040	-	-	1,234,972
Common stock issuance for settlement of accounts payable	-	-	886,700	89	117,842	-	-	117,931
Common stock issued at fair value for services and commitment fees	-	-	35,734,233	3,573	3,415,025	-	-	3,418,598
Stock compensation cost	-	-	-	-	71,603	-	-	71,603
Other comprehensive loss	-	-	-	-	-	(42)	-	(42)
Net loss for the nine months ended September 30, 2017	-	-	-	-	-	-	(8,659,802)	(8,659,802)
Balance at September 30, 2017 (unaudited)	7,666	$ 1	78,151,781	$ 7,815	$ 57,564,158	$ (134)	$ (71,889,409)	$ (14,317,569)

The accompany notes are an integral part of these unaudited condensed consolidated financial statements

ORIGINCLEAR, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended September 30, 2017	September 30, 2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(8,659,802)	$(5,728,054)
Adjustment to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	39,506	33,902
Common stock and warrants issued for services	3,418,598	1,787,902
Stock option and warrant compensation expense	71,603	155,112
Loss on net change in valuation of derivative liability and conversion of debt	2,787,138	1,959,230
Debt discount and original issue discount recognized as interest expense	313,546	373,434
Change in Assets (Increase) Decrease in:		
Contracts receivable	(140,653)	675,188
Cost in excess of billing	38,374	(12,954)
Inventory asset	(13,614)	-
Prepaid expenses	24,137	1,797
Work in progress	1,928	518
Other asset	-	(88,548)
Change in Liabilities Increase (Decrease) in:		
Accounts payable	468,406	299,584
Accrued expenses	121,047	257,501
Billing in excess of cost	209,294	(474,741)
Deferred income	24,100	(150,000)
NET CASH USED IN OPERATING ACTIVITIES	(1,296,392)	(910,129)
CASH FLOWS USED FROM INVESTING ACTIVITIES:		
Purchase of fixed assets	(33,845)	(5,699)
CASH USED IN INVESTING ACTIVITIES	(33,845)	(5,699)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Loans payable	23,372	-
Proceeds from convertible promissory notes	-	125,000
Proceeds for issuance of common stock for cash	1,297,750	963,217
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,321,122	1,088,217
Foreign currency effect on cash flow	(42)	(23)

NET (DECREASE) INCREASE IN CASH	(9,157)	172,366
CASH BEGINNING OF PERIOD	351,321	695,295
CASH END OF PERIOD	$342,164	$867,661
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid	$1,823	$2,199
Taxes paid	$-	$-
SUPPLEMENTAL DISCLOSURES OF NON CASH TRANSACTIONS		
Common stock issued at fair value for conversion of debt and accrued interest	$1,234,972	$878,040
Common stock issued at fair value on settlement of accounts payable	$117,931	$-
Common stock issued at fair value for supplemental shares	$1,409,655	$787,971
Beneficial conversion feature on convertible note	$-	$16,771
Conversion of accounts payable into a convertible note	$-	$430,896

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

ORIGINCLEAR, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

SEPTEMBER 30, 2017

1. The accompanying unaudited condensed financial statements of OriginClear, Inc. (the “Company”) (formerly OriginOil, Inc.) 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 nine months ended September 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017. 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, 2016.

Going Concern

The accompanying condensed 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 condensed financial statements do not reflect any adjustments that might result if the Company is unable to continue as a going concern. The Company’s revenue is not yet sufficient to cover its operating expenditures 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. Management believes the existing shareholders, the prospective new investors, current and future sales will provide the additional cash needed to meet the Company’s obligations as they become due, and will allow the development of its core business operations. No assurance can be given that any future financing will be available or, if available, that it will be on terms that are satisfactory to the Company. Even if the Company is able to obtain additional financing, it may contain undue restrictions on our operations, in the case of debt financing, or cause substantial dilution for our stockholders, in case of equity financing.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES

This summary of significant accounting policies of the Company 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.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of OriginClear, Inc. and its wholly owned operating subsidiaries, Progressive Water Treatment, Inc., and OriginClear (HK) Company, Ltd. All material intercompany transactions have been eliminated upon consolidation of these entities.

Loss per Share Calculations

Basic loss per share calculations are computed by dividing income (loss) 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 securities or other contracts to issue common stock that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive.

The Company has excluded 3,697,495 of stock options, 474,335 warrants, and the shares issuable from convertible debt of $3,667,068 and shares issuable from convertible preferred stock for the nine months ended September 30, 2017, because their impact on the loss per share is anti-dilutive.

The Company has excluded 113,916,311 stock options, 17,824,259 warrants, and the shares issuable from convertible debt of $4,214,068 and shares issuable from convertible preferred stock for the for the nine months ended September 30, 2016, because their impact on the earnings per share is anti-dilutive.

Work-in-Process

The Company recognizes as an asset the accumulated costs for work-in-process on projects expected to be delivered to customers. Work in Process includes the cost price of materials and labor related to the construction of equipment to be sold to customers.

Stock-Based Compensation

The Company periodically issues stock options and warrants to employees and non-employees in non-capital raising transactions for services and for financing costs. The Company accounts for stock option and warrant grants issued and vesting to employees based on the authoritative guidance provided by the Financial Accounting Standards Board whereas the value of the award is measured on the date of grant and recognized over the vesting period. The Company accounts for stock option and warrant grants issued and vesting to non-employees in accordance with the authoritative guidance of the Financial Accounting Standards Board whereas the value of the stock compensation is based upon the measurement date as determined at either a) the date at which a performance commitment is reached, or b) at the date at which the necessary performance to earn the equity instruments is complete. Non-employee stock-based compensation charges generally are amortized over the vesting period on a straight-line basis. In certain circumstances where there are no future performance requirements by the non-employee, option grants are immediately vested and the total stock-based compensation charge is recorded in the period of the measurement date.

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ORIGINCLEAR, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

SEPTEMBER 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Continued)

Revenue Recognition

Equipment sales

We recognize revenue upon delivery of equipment, 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. Title to the equipment is transferred to the customer once the last payment is received. We record revenue as goods are shipped, and the equipment has been fully accepted by the customer. Generally, we extend credit to our customers and do not require collateral. We do not ship a product until we have a purchase agreement signed by the customer with a payment arrangement.

Percentage of completion

Revenues and related costs on construction contracts are recognized using the "percentage of completion method" of accounting in accordance with ASC 605-35 – "*Accounting for Performance of Construction-Type and Certain Production Type Contracts*". Under this method, contract revenues and related expenses are recognized over the performance period of the contract in direct proportion to the costs incurred as a percentage of total estimated costs for the entirety of the contract. Costs include direct material, direct labor, subcontract labor and any allocable indirect costs. All un-allocable indirect costs and corporate general and administrative costs are charged to the periods as incurred. However, in the event a loss on a contract is foreseen, the Company will recognize the loss as it is determined.

The asset "Costs in excess of billings" represents revenues recognized in excess of amounts billed on contracts in progress. The liability "Billings in excess of costs" represents billings in excess of revenues recognized on contracts in progress. Assets and liabilities related to long-term contracts are included in current assets and current liabilities in the accompanying balance sheets, as they will be liquidated in the normal course of the contract completion. The cost in excess of billings for the nine months ending September 30, 2017 was $9,238 and at December 31, 2016 was $47,612. The billing in excess of cost for the nine months ending September 30, 2017, was $209,294 and at December 31, 2016 was $0.

Revisions in cost and profit estimates during the course of the contract are reflected in the accounting period in which the facts for the revisions become known. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, and estimated profitability, including those arising from contract penalty provisions, and final contract settlements, may result in revisions to costs and income, which are recognized in the period the revisions are determined.

Contract receivables are recorded on contracts for amounts currently due based upon progress billings, as well as retention, which are collectible upon completion of the contracts. Accounts payable to material suppliers and subcontractors are recorded for amounts currently due based upon work completed or materials received, as are retention due subcontractors, which are payable upon completion of the contract. General and administrative expenses are charged to operations as incurred and are not allocated to contract costs.

Contract Receivable

The Company bills its customers in accordance with contractual agreements. The agreements generally require billing to be on a progressive basis as work is completed. Credit is extended based on evaluation of clients financial condition and collateral is not required. The Company maintains an allowance for doubtful accounts for estimated losses that may arise if any customer is unable to make required payments. Management performs a quantitative and qualitative review of the receivables past due from customers on a monthly basis. The Company records an allowance against uncollectible items for each customer after all reasonable means of collection have been exhausted, and the potential for recovery is considered remote. The allowance for doubtful accounts was approximately $50,000 as of September 30, 2017 and December 31, 2016, respectively. The net contract receivable balance was $523,548 and $382,895 at September 30, 2017 and December 31, 2016, respectively.

ORIGINCLEAR, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

SEPTEMBER 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Continued)

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 September 30, 2017, the balances reported for cash, contract receivables, cost in excess of billing, prepaid expenses, accounts payable, billing in excess of cost, and accrued expenses approximate the fair value because of their short maturities.

We adopted ASC Topic 820 for financial instruments measured as fair value on a recurring basis. ASC Topic 820 defines fair value, established a framework for measuring fair value in accordance with accounting principles generally accepted in the United States and expands disclosures about fair value measurements.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 established a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). These tiers include:

Level 1, defined as observable inputs such as quoted prices for identical instruments in active markets;

Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable such as quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active; and

Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions, such as valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The following table presents certain investments and liabilities of the Company's financial assets measured and recorded at fair value on the Company's balance sheets on a recurring basis and their level within the fair value hierarchy as of September 30, 2017.

	Total	(Level 1)	(Level 2)	(Level 3)
Derivative Liability	$10,728,464	$ -	$ -	$10,728,464
Total liabilities measured at fair value	$10,728,464	$ -	$ -	$10,728,464

The following is a reconciliation of the derivative liability for which level 3 inputs were used in determining the approximate fair value:

Balance as of January 1, 2017	$8,702,083
Fair Value of derivative liabilities issued	-
Change in derivative liability, excluding loss on settlement of debt	2,026,381
Balance as of September 30, 2017	10,728,464

For purpose of determining the fair market value of the derivative liability, the Company used Binomial lattice formula valuation model. The significant assumptions used in the Binomial lattice formula valuation of the derivative are as follows:

	09/30/2017	
Risk free interest rate	.01% - 1.92	%
Stock volatility factor	4.72% - 189.09	%
Weighted average expected option life	6 months - 5 years	
Expected dividend yield	None	

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ORIGINCLEAR, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

SEPTEMBER 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Continued)

Segment Reporting

The Company's business currently operates in one segment based upon the Company's organizational structure and the way in which the operations are managed and evaluated.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-2, which creates ASC Topic 842, "Leases." This update increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. This guidance is effective for interim and annual reporting periods beginning after December 15, 2018. We are evaluating what impact, if any, the adoption of this guidance will have on our financial condition, results of operations, cash flows or financial disclosures.

In August 2016, the FASB issued ASU No. 2016-15 which amends ASC Topic 230, "Classification of Certain Cash Receipts and Cash Payments." The amendments in this Update address eight specific cash flow issues with the objective of reducing the existing diversity in practice. The update outlines the classification of specific transactions as either cash inflows or outflows from financing activities, operating activities, investing activities or non-cash activities. This guidance is effective for interim and annual reporting periods beginning after December 15, 2017. We are evaluating what impact, if any, the adoption of this guidance will have on our financial condition, results of operations, cash flows or financial disclosures.

In May 2017, FASB issued accounting standards update ASU-2017-09, "Compensation-Stock Compensation" (Topic 718) –Modification Accounting", to provide clarity and reduce both (1) diversity in practice and (2) cost and complexity when applying the guidance in Topic 718, Compensation-Stock Compensation, to a change to the terms or conditions of a share-based payment award. The amendments in this ASU are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period for public entities for reporting periods for which financial statements have not yet been issued, and all other entities for reporting periods for which financial statements have not yet been made available for issuance. The Company is currently evaluating the impact of the adoption of ASU 2017-09 on the Company’s financial statements.

In August 2017, FASB issued accounting standards update ASU-2017-12, “D” (Topic 815) – “Targeted Improvements to Accounting for Hedging Activities”, to require an entity to present the earnings effect of the hedging instrument in the same statement line item in which the earnings effect of the hedged item is reported. The amendments in this update are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods with the fiscal years beginning after December 15, 2020. Early adoption is permitted in any interim period after issuance of the update. The Company is currently evaluating the impact of the adoption of ASU 2017-12 on the Company’s financial statements.

Management reviewed currently issued pronouncements during the period ended September 30, 2017, and does not believe that any other recently issued, but not yet effective, accounting standards, if currently adopted, would have a material effect on the accompanying condensed financial statements.

ORIGINCLEAR, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

SEPTEMBER 30, 2017

3. CAPITAL STOCK

Preferred Stock

Series A

On March 30, 2017, the Board of Directors of the Company authorized the withdrawal of the Series A preferred stock. As of September 30, 2017, no shares of Series A preferred stock were outstanding.

Series B

On October 1, 2015, the Company filed a Certificate of Designation for Series B preferred stock with the Secretary of State of Nevada and the shares of Series B preferred stock were issued to the shareholders of Progressive Water Treatment, Inc. in connection with the share exchange agreement. One third (1/3) of the shares received by the holder may be converted into common stock beginning one (1) year after the first date on which a share of Series B Preferred Stock was issued (the "Original Issue Date); one third (1/3) may be converted beginning two (2) years after the Original Issue Date; and the remaining one third (1/3) may be converted beginning three years after the Original Issue Date. The number of shares of common stock issuable for each share of converted Series B preferred stock shall be calculated by dividing the stated value by the market price, the market price shall be the average of the closing trade prices of the twenty-five (25) days prior to the date of the conversion notice. On August 12, 2016, the agreement was amended to include make-good-shares. The conversion price set forth in Section 1.2 of the agreement shall be adjusted to reflect the lower of $1.05 or the price of the Company's common stock calculated using the average closing prices of the Company's common stock on the last three (3) trading days prior to the date of conversion, provided, however, if the Average Closing Price is less than $0.35 per share, the adjusted conversion price shall be $0.35 per share. See Note 3. The conversion price is subject to adjustment in the case of reverse splits, stock dividends, reclassifications and the like. In addition, the conversion price is subject to certain full ratchet anti-dilution protection. Accordingly, the preferred stock is valued under the provision of ASC Topic 815, Derivatives and Hedging, because the conversion feature of the preferred stock was not afforded the exemption for conventional convertible instruments due to its variable conversion rate. The Series B preferred stock shall have the rights, preferences and privileges as set forth in the exchange agreement. As of September 30, 2017, there are 6,666 shares of Series B preferred stock outstanding.

Series C

On March 14, 2017, the Board of Directors authorized the issuance of 1,000 shares of Series C preferred stock, par value $0.0001 per share, to T. Riggs Eckelberry in exchange for his continued employment with the Company. The purchase price of the Series C preferred stock was $0.0001 per share representing a total purchase price of $0.10 for 1,000 shares.

Common Stock

On April 7, 2017, the Company filed a certificate of amendment to its articles of incorporation with the State of Nevada effectuating a reverse split of the Company's common stock at a ratio of 1 for 35 (the "Reverse Split"). The Reverse Split became effective in the State of Nevada on April 12, 2017. Unless otherwise indicated, all share amounts, per share data, share prices, exercise prices, and conversion rates set forth in this Quarterly Report and the accompanying unaudited condensed consolidated financial statement have, where applicable been adjusted retroactively to reflect this reverse stock split.

On June 30, 2017, the Company filed a certificate of amendment (the "Certificate of Amendment") to amend Article 3 of its articles of incorporation with the State of Nevada, effectuating a decrease of the number of authorized shares of the Company. Pursuant to the Certificate of Amendment, the Company reduced the number of authorized shares of its common stock to 300,000,000. The Certificate of Amendment became effective upon filing with the State of Nevada on June 30, 2017. The reduction in the number of authorized shares does not affect the shares of the Company's stock issued and outstanding.

Nine months ended September 30, 2017

The Company issued 10,775,722 shares of common stock through private placements at prices of $0.05 to $0.175 per share for cash in the amount of $1,297,750.

The Company issued 9,321,555 shares of common stock for the settlement of convertible promissory notes in an aggregate principal in the amount of $485,000, plus interest in the amount of $107,145, with an aggregate fair value loss on settlement of $732,826, based upon conversion prices of $0.0651 to $0.2205.

The Company issued 886,700 shares of common stock for the settlement of accounts payable with a fair value of $90,000, with a fair value loss on settlement of $27,931.

The Company issued 35,734,233 shares of common stock for services at fair value of $3,418,598.

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ORIGINCLEAR, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

SEPTEMBER 30, 2017

4. CONVERTIBLE PROMISSORY NOTES

As of September 30, 2017, the outstanding convertible promissory notes are summarized as follows:

Convertible Promissory Notes	$3,667,068
Less debt discount	289,718
Convertible Promissory Notes, net of discount	$3,377,350
Less current portion	296,722
Long term portion	$3,080,628

At September 30, 2017, the $3,667,068 in convertible promissory notes has a remaining debt discount of $289,718, leaving a net balance of $3,377,350.

On various dates, the Company entered into unsecured convertible notes (the “Convertible Promissory Notes” or “Notes”), that matured during the period and were extended sixty (60) days from the effective date of each Note. The Notes bear interest at 10% per annum. The Notes may be converted into shares of the Company’s common stock at conversion prices ranging from the lesser of $2.10 to $4.90 (subject to adjustment for stock splits, dividends, combinations and other similar transactions) or 50% of the lowest trade price on any trade day following issuance of the Notes. In addition, for as long as the Notes or other convertible notes in effect between the purchaser and the Company are outstanding, if the Company issues any security with terms more favorable than the terms of the Notes or such other convertible notes or a term was not similarly provided to the purchaser of the Notes or such other convertible notes, then such more favorable or additional term shall, at the purchaser’s option, become part of the Notes and such other convertible notes. The conversion feature of the Notes was considered a derivative in accordance with current accounting guidelines because of the reset conversion features of the Notes. During the nine months ended September 30, 2017, the Company issued 9,321,555 shares of common stock, upon conversion of $395,000 in principal, plus accrued interest of $107,145, with a fair value loss on settlement of $732,826. As of September 30, 2017, the Notes had an aggregate remaining balance of $1,560,000.

As of September 30, 2017, unsecured convertible promissory notes (the “OID Notes”) had an aggregate remaining principal balance of $184,124, plus accrued interest of $13,334 were amended. The OID Notes included an original issue discount and one time interest, which has been fully amortized. The OID Notes were extended through

December 31, 2017. The OID Notes were convertible into shares of the Company's common stock at a conversion price initially of $15.31. After the amendment, the conversion price changed to the lesser of $2.80 per share, or b) fifty percent (50%) of the lowest trade price of common stock recorded since the original effective date of this note, or c) the lowest effective price per share granted to any person or entity after the effective date. The conversion feature of the notes was considered a derivative in accordance with current accounting guidelines, because of the reset conversion features of the notes.

The Company entered into various, unsecured convertible notes (the "Notes"), on various dates ending on May 19, 2016. The Notes matured and were extended from the date of each tranche through maturity dates ending on May 19, 2020. The Notes bear interest at 10% per annum. The Notes may be converted into shares of the Company's common stock at conversion prices ranging from the lesser of $0.70 to $2.80 (subject to adjustment for stock splits, dividends, combinations and other similar transactions) or 50% of the lowest trade price on any trade day following issuance of the Notes. The conversion feature of the Notes was considered a derivative in accordance with current accounting guidelines because of the reset conversion features of the Notes. The remaining balance of the note as of September 30, 2017, was $1,325,000. The Company recorded amortization of debt discount, which was recognized as interest expense in the amount of $11,479 during the nine months ended September 30, 2017.

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ORIGINCLEAR, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

SEPTEMBER 30, 2017

4. CONVERTIBLE PROMISSORY NOTES (Continued)

The Company issued a convertible note in exchange for an accounts payable in the amount of $432,048, which could be converted into shares of the Company's common stock after December 31, 2015. The note was accounted for under ASC 470, whereby, a beneficial conversion feature was recorded at time of issuance. The note did not meet the criteria of a derivative, and was accounted for as a beneficial conversion feature, which was amortized over the life of the note and recognized as interest expense in the financial statements. On January 1, 2016, the note met the criteria of a derivative and was accounted for under ASC 815. The note has zero stated interest rate, and the conversion price shall be equal to 75% of the average three lowest last sale prices traded during the 25 trading days immediately prior to conversion. As of December 31, 2016, the remaining balance was $257,048. During the nine months ended September 30, 2017, the Company issued 886,700 shares of common stock upon conversion of principal in the amount of $90,000, with a fair value loss on settlement of $27,931. As of September 30, 2017, the Note had a remaining balance of $167,048. The Company recorded amortization of debt discount, which was recognized as interest expense in the amount of $161,574 during the nine months ended September 30, 2017.

The Company issued a convertible note in exchange for an accounts payable in the amount of $430,896, which could be converted into shares of the Company's common stock after September 15, 2016. The note was accounted for under ASC 470, whereby, a beneficial conversion feature was recorded at time of issuance. On September 15, 2016, the note met the criteria of a derivative and was accounted for under ASC 815. The note has zero stated interest rate, and the conversion price shall be equal to 75% of the average three lowest last sale prices traded during the 25 trading days immediately prior to conversion. The note did not meet the criteria of a derivative at the time it was entered into, and was accounted for as a beneficial conversion feature, which was amortized over the life of the note and recognized as interest expense in the financial statements. The conversion feature of the Note was considered a derivative in accordance with current accounting guidelines because of the reset conversion feature of the Note. The Company recorded amortization of debt discount, which was recognized as interest expense in the amount of $140,543 during the nine months ended September 30, 2017.

We evaluated the financing transactions in accordance with ASC Topic 815, Derivatives and Hedging, and determined that the conversion feature of the convertible promissory notes was not afforded the exemption for conventional convertible instruments due to its variable conversion rate. The note has no explicit limit on the number of shares issuable so they did not meet the conditions set forth in current accounting standards for equity classification. The Company elected to recognize the note under paragraph 815-15-25-4, whereby, there would be a separation into a host contract and derivative instrument. The Company elected to initially and subsequently measure the note in its entirety at fair value, with changes in fair value recognized in earnings. The Company recorded a derivative liability representing the imputed interest associated with the embedded derivative. The derivative liability is adjusted periodically according to the stock price fluctuations.

The derivative liability recognized in the financial statements as of September 30, 2017 was $10,728,464.

5. OPTIONS AND WARRANTS

Options

On May 25, 2012, the Board of Directors adopted a new OriginOil, Inc. 2012 Incentive Stock Option Plan (the “2012 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 28,571 shares of common stock. Options granted under these plans may be either incentive options or nonqualified options and shall be administered by the Company’s Board of Directors. 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 2012 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 grant.

On June 14, 2013, the Board of Directors adopted a new OriginOil, Inc. 2013 Incentive Stock Option Plan (the “2013 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 114,286 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. Each option shall state the number of shares to which it pertains. The exercise price will be determined by the holders’ percentage owned as follows: If the holder owns more than 10% of the total combined voting power or value of all classes of stock of the Company, then the exercise price will be no less than 110% of the fair market value of the stock as of the date of grant; if the person is not a 10% holder, then the exercise price will be no less than 100% of the fair market value of the stock as of the date of grant. Notwithstanding any other provision of the 2013 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 date of grant. If the status of an employee terminates for any reason other than disability or death, then the optionee or their representative shall have the right to exercise the portion of any options which were exercisable as of the date of such termination, in whole or in part, not less than 30 days nor more than three (3) months after such termination.

ORIGINCLEAR, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

SEPTEMBER 30, 2017

5. OPTIONS AND WARRANTS (Continued)

On September 29, 2015, the Board of Directors adopted a new OriginClear, Inc. 2015 Equity Incentive Stock Option Plan (the "2015 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 3,315,714 shares of common stock. On October 2, 2015, the Board of Directors amended the number of shares to reserve for issuance to 4,571,429 shares. Options granted under these plans may be either incentive options or nonqualified options and shall be administered by the Company's Board of Directors. 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 2015 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 fifth (5th) anniversary from the effective date of grant.

During the year ended December 31, 2016, the Company granted 31,429 shares of incentive stock options to employees, and 428,571 shares of non-statutory options to consultants. Each option shall be exercisable to the nearest whole share, in installments or otherwise, as the respective option agreements may provide. The stock options mature on March 29, 2021 and October 17, 2021, at prices of $0.29 and $1.31.

With respect to Non-Statutory Options granted to employees, directors or consultants, the Board of Directors or Committee of the Board of Directors may specify such period for exercise that the option shall automatically terminate following the termination of employment or services as to shares covered by the option as the Board of Directors or Committee of the Board of Directors deems reasonable and appropriate.

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

	September 30, 2017	
	Number of Options	Weighted average exercise price
Outstanding, beginning of period	3,697,495	$ 1.505

Granted	-	-
Exercised	-	-
Forfeited/Expired	-	-
Outstanding, end of period	3,697,495	$ 1.505
Exercisable at the end of the period	2,682,644	$ 1.035
Weighted average fair value of options granted during the period		$ -

The weighted average remaining contractual life of options outstanding issued under the 2009 Plan, 2012 Plan, and 2013 Plan as of September 30, 2017 was as follows:

Exercisable Prices	Stock Options Outstanding	Stock Options Exercisable	Weighted Average Remaining Contractual Life (years)
$6.65 - 147.00	52,276	50,401	4.84 - 7.02
$10.15 - 15.40	32,362	32,362	5.96
$1.31	3,612,857	2,599,881	3.22 - 4.05
	3,697,495	2,682,644	

Stock-based compensation expense recognized during the year is based on the value of the portion of stock-based payment awards that is ultimately expected to vest. Stock-based compensation expense recognized in the financial statements of operations during the nine months ended September 30, 2017 and 2016 were $71,603 and $155,112, respectively.

As of September 30, 2017, there was no intrinsic value with regards to the outstanding options.

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ORIGINCLEAR, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

SEPTEMBER 30, 2017

5. OPTIONS AND WARRANTS (Continued)

Restricted Stock to CEO

On May 12, 2016, the Company entered into a Restricted Stock Grant Agreement (the “RSGA”) with its Chief Executive Officer, Riggs Eckelberry, to create management incentives to improve the economic performance of the Company and to increase its value and stock price. All shares issuable under the RSGA are performance based shares and none have yet vested nor have any been issued. The RSGA provides for the issuance of up to 1,714,286 shares of the Company’s common stock to the Employees provided certain milestones are met in certain stages; a) If the Company’s consolidated gross revenue, calculated in accordance with generally accepted accounting principles, consistently applied, equals or exceeds $15,000,000 for the trailing twelve month period as reported in the Company’s quarterly or annual financial statements, the Company will issue up to 857,143 shares of its common stock; b) If the Company’s consolidated operating profit (*Operating Profit = Operating Revenue - Cost of Goods Sold - Operating Expenses - Depreciation & Amortization),* calculated in accordance with generally accepted accounting principles, equals or exceeds $1,500,000 for the trailing twelve month period as reported as reported in the Company’s SEC Reports, the Company will issue up to 857,143 shares of its common stock. The Company has not recognized any costs associated with the milestones, due to not being able to estimate the probability of it being achieved. As the performance goals are achieved, the shares shall become eligible for vesting and issuance.

On August 10, 2016, the Company entered into a Restricted Stock Grant Agreement (the “August RSGA”) with its Chief Executive Officer, Riggs Eckelberry, to create management incentives to improve the economic performance of the Company and to increase its value and stock price. All shares issuable under the August RSGA are performance based shares and none have yet vested nor have any been issued. The August RSGA provides for the issuance of up to 1,714,286 shares of the Company’s common stock to the CEO provided certain milestones are met in certain stages; a) If the Company’s consolidated gross revenue, calculated in accordance with generally accepted accounting principles, consistently applied, equals or exceeds $15,000,000 for the trailing twelve month period, the Company will issue up to 857,143 shares of its common stock; b) If the Company’s consolidated operating profit (*Operating Profit = Operating Revenue - Cost of Goods Sold - Operating Expenses - Depreciation & Amortization),* calculated in accordance with generally accepted accounting principles, equals or exceeds $1,500,000 for the trailing twelve month period as reported as reported in the Company’s SEC Reports, the Company will issue up to 857,143 shares of its common stock. The Company has not recognized any costs associated with the milestones, due to not being able to estimate the probability of it being achieved. As the performance goals are achieved, the shares shall become eligible for vesting and issuance.

Restricted Stock to Employees and Consultants

On May 12, 2016, the Company entered into a Restricted Stock Grant Agreement (the “First Employee RSGA”) with an employee, to create management incentives to improve the economic performance of the Company and to increase its value and stock price. All shares issuable under the First Employee RSGA are performance based shares and none have yet vested nor have any been issued. The First Employee RSGA provides for the issuance of up to 857,143 shares of the Company’s common stock to the employee provided certain milestones are met in certain stages; a) If the Company’s consolidated gross revenue, calculated in accordance with generally accepted accounting principles, consistently applied, equals or exceeds $15,000,000 for the trailing twelve month period as reported in the Company’s quarterly or annual financial statements, the Company will issue up to 428,571 shares of its common stock; b) If the Company’s consolidated operating profit (*Operating Profit = Operating Revenue - Cost of Goods Sold - Operating Expenses - Depreciation & Amortization),* calculated in accordance with generally accepted accounting principles, equals or exceeds $1,500,000 for the trailing twelve month period as reported as reported in the Company’s SEC Reports, the Company will issue up to 428,571 shares of its common stock. The Company has not recognized any costs associated with the milestones, due to not being able to estimate the probability of it being achieved. As the performance goals are achieved, the shares shall become eligible for vesting and issuance.

On May 12, 2016, the Company entered into a Restricted Stock Grant Agreement (the “Second Employee RSGA”) with an employee, to create management incentives to improve the economic performance of the Company and to increase its value and stock price. All shares issuable under the Second Employee RSGA are performance based shares and none have yet vested nor have any been issued. The Second Employee RSGA provides for the issuance of up to 571,429 shares of the Company’s common stock to the employee provided certain milestones are met in certain stages; a) If the Company’s consolidated gross revenue, calculated in accordance with generally accepted accounting principles, consistently applied, equals or exceeds $15,000,000 for the trailing twelve month period as reported in the Company’s quarterly or annual financial statements, the Company will issue up to 285,714 shares of its common stock; b) If the Company’s consolidated operating profit (*Operating Profit = Operating Revenue - Cost of Goods Sold - Operating Expenses - Depreciation & Amortization),* calculated in accordance with generally accepted accounting principles, equals or exceeds $1,500,000 for the trailing twelve month period as reported as reported in the Company’s SEC Reports, the Company will issue up to 285,714 shares of its common stock. The Company has not recognized any costs associated with the milestones, due to not being able to estimate the probability of it being achieved. As the performance goals are achieved, the shares shall become eligible for vesting and issuance.

ORIGINCLEAR, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

SEPTEMBER 30, 2017

5. OPTIONS AND WARRANTS (Continued)

Restricted Stock to Employees and Consultants (Continued)

On August 10, 2016, the Company entered into a Restricted Stock Grant Agreement (the “Consultants RSGA”) with two of its’ consultants, to create management incentives to improve the economic performance of the Company and to increase its value and stock price. All shares issuable under the Consultants RSGA are performance based shares and none have yet vested nor have any been issued. The Consultants RSGA provides to each of the consultants the issuance of up to 285,714 shares of the Company’s common stock provided certain milestones are met in certain stages; a) If the Company’s consolidated gross revenue, calculated in accordance with generally accepted accounting principles, consistently applied, equals or exceeds $15,000,000 for the trailing twelve month period, the Company will issue to each of the consultants up to 142,857 shares of its common stock; b) If the Company’s consolidated operating profit (*Operating Profit = Operating Revenue - Cost of Goods Sold - Operating Expenses - Depreciation & Amortization),* calculated in accordance with generally accepted accounting principles, equals or exceeds $1,500,000 for the trailing twelve month period as reported as reported in the Company’s SEC Reports, the Company will issue up to 142,857 shares to each of the consultants, its common stock. The Company has not recognized any costs associated with the milestones, due to not being able to estimate the probability of it being achieved. As the performance goals are achieved, the shares shall become eligible for vesting and issuance.

Warrants

During the nine months ended September 30, 2017, the Company issued 22,825,000 purchase warrants to prospective investors in connection with a private offering pursuant to Section 4(2) of the Securities Act of 1933, as amended, Rule 506 promulgated under Regulation D of the Securities Act and Regulation S of the Securities Act. A summary of the Company’s warrant activity and related information follows for the nine months ended September 30, 2017:

	September 30, 2017	
	Number of Warrants	Weighted average exercise price
Outstanding-beginning of the period	506,026	$ 5.25
Granted	22,825,000	$ 0.02
Exercised	-	-

Forfeited	(27,296)	$ (22.37)
Outstanding - end of the period	23,303,730	$ 0.13

At September 30, 2017, the weighted average remaining contractual life of warrants outstanding:

Exercisable Prices	Warrants Outstanding	Warrants Exercisable	Weighted Average Remaining Contractual Life (years)
$5.25 - 22.75	461,537	461,537	0.24 - 0.70
$0.35 - 0.12	22,825,000	22,825,000	0.67 – 1.17
$31.50	2,858	2,858	5.13
$8.75 - 22.75	14,335	14,335	0.05 – 0.97
	23,303,730	23,303,730	

At September 30, 2017, the aggregate intrinsic value of the warrants outstanding was $253,930.

6. FOREIGN SUBSIDIARY

On December 31, 2014, the Company formed a wholly owned subsidiary, OriginClear (HK) Company, Ltd (OCHK), in Hong Kong, China. The Company has granted OCHK a master license for the People’s Republic of China, and a non-exclusive license for the rest of Asia. In turn, OCHK is expected to license regional joint ventures for the commercial development of EWS:AOx Technology. A research and manufacturing center are also planned.

ORIGINCLEAR, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

SEPTEMBER 30, 2017

7. COMMITMENTS AND CONTINGENCIES

Operating Lease – Related Party

The Company entered into a month-to-month lease agreement with a shareholder of the Company for office space in McKinney, Texas at a base rent of $4,750 per month.

Warranty Reserve

Generally, a PWT project is guaranteed against defects in material and workmanship for one year from the date of completion, while certain areas of construction and materials may have guarantees extending beyond one year. The Company has various insurance policies relating to the guarantee of completed work, which in the opinion of management will adequately cover any potential claims. A warranty reserve has been provided under PWT based on the opinion of management and based on Company history in the amount of $20,000 as of September 30, 2017.

8. SUBSEQUENT EVENTS

Management has evaluated subsequent events according to the requirements of ASC TOPIC 855 and has determined that there are the following subsequent events:

On October 3, 2017, a holder of Series B Preferred Stock converted 3,333 shares of the Company's Series B Preferred Stock into an aggregate of 1,428,429 shares of the Company's common stock. The shares of common stock issued included 476,143 shares issued upon conversion of the 3,333 shares of Series B Preferred Stock at $1.05 per share and 952,286 shares as a one-time make good issuance as per the Certificate of Designation of Series B Preferred Stock and agreement between the Company and the holder.

As previously reported, the Company has commenced an offering under Regulation 506c of Regulation D (the “Private Placement”) of the Securities Act of 1933, as amended (the “Securities Act”) pursuant to which the Company shall sell units of its securities (the “Units”) with each Unit consisting of (i) one restricted share of its common stock, (ii) a Class A Warrant to purchase one share of its common stock, (iii) a Class B Warrant to purchase one share of its common stock, (iv) a Class C Warrant to purchase one share of its common stock and (v) a Class D Warrant to purchase one share of its common stock to qualified investors. Between October 12, 2017 and November 13, 2017, the Company sold, in the Private Placement, an aggregate of 11,100,000 shares of its common stock to accredited investors for an aggregate consideration of $277,500.

On October 20, 2017, holders of convertible promissory notes converted an aggregate principal and interest amount of $31,410 into an aggregate of 2,052,968 shares of the Company’s common stock.

In connection with certain one-time make good agreements, between October 2, 2017 and October 31, 2017, the Company issued an aggregate of 1,342,185 shares of its common stock to certain holders of its common stock.

On November 10, 2017, the Company entered into a Restricted Stock Grant Agreement (the “RSGA”) with Jean Louis Kindler, the Company’s Chief Commercial Officer and Director, to create management incentives to improve the economic performance of the Company and to increase its value and stock price. The RSGA provides for the issuance of up to 2,000,000 shares of the Company’s common stock provided certain milestones are met in certain stages. All shares issuable under the RSGA are performance based shares and none have yet vested nor have any been issued.

Between October 31, 2017 and November 13, 2017, the Company issued to consultants an aggregate of 5,680,648 shares of the Company’s common stock in lieu of cash consideration.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

This Form 10-Q 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," 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. 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

OriginClear, Inc. ("we", "us", "our", the "Company" or "OriginClear") was incorporated on June 1, 2007 under the laws of the State of Nevada. We have been engaged in business operations since June 2007. We are currently commercializing our technology through joint ventures and licensing, while operating a water treatment service company in Texas, which we have designated a certified manufacturer for our technology. Our principal offices are located at 525 S. Hewitt St., Los Angeles, California 90013. Our main telephone number is (323) 939-6645. Our website address is www.OriginClear.com. In addition to announcing material financial information through our investor relations website, press releases, SEC filings and webcasts, we also intend to use the following social media channels as a means of disclosing information about our products, our planned financial and other announcements, our attendance at upcoming investor and industry conferences, and other matters and for complying with our disclosure obligations under Regulation FD:

OriginClear's Twitter Account (https://twitter.com/OriginClear)

OriginClear's Facebook Page (https://www.facebook.com/OriginClear)

The information we post through these social media channels may be deemed material. Accordingly, investors should monitor these accounts, in addition to following the company's press releases, SEC filings, public conference calls and webcasts. This list may be updated from time to time.

We have not incorporated by reference into this report the information in, or that can be accessed through, our website or social media channels, and you should not consider it to be a part of this report.

Overview of Business

OriginClear is a leading provider of water treatment solutions and the developer of a breakthrough water cleanup technology. Through its wholly owned subsidiaries, OriginClear provides systems and services to treat water in a wide range of industries, such as municipal, pharmaceutical, semiconductors, industrial, and oil & gas. To rapidly grow this segment of the business, we strategically acquire profitable and well-managed water treatment companies, which allow us to expand our global market presence and technical expertise. To enable a new era of clean and socially responsible water treatment solutions, we invented Electro Water Separation™, a breakthrough high-speed water cleanup technology using multi-stage electrochemistry, which we license worldwide to water treatment equipment manufacturers. Water is our most valuable resource and the mission of The OriginClear Group™ (the "Group") is to improve the quality of water and help return it to its original and clear condition.

The Group

Outsourcing is a fast-growing reality in water treatment. Tougher regulations, water scarcities and general outsourcing trends are driving industrial and agricultural water treatment users to delegate their water problem to service providers. As Global Water Intelligence pointed out in their report on October 30, 2015, "Water is often perceived as a secondary importance, with end-users increasingly wanting to focus solely on their own core business. This is driving a move away from internal water personnel towards external service experts to take control of water aspects." External service experts are typically small, privately owned and locally operated. Consolidating these companies could lead to enormous economies of scale through sharing of best practices, technologies, and customers. Decentralization is an even greater trend in water, similar to what has been seen in energy decentralization through solar and wind off-grid generation. Water is becoming increasingly scarcer. McKinsey's Transforming Water Economies forecasts that "without action, global water demand could outstrip supply by up to 40 percent by 2030." Furthermore, existing wa infrastructure in the United States is aging and water loss is increasing. According to Lux Research, updating the country's national water infrastructure will require an investment of $270 billion; money that will be hard to pull together for projects that could take decades to complete. In the meantime, centralized water systems are forcing water users to treat their own water with small, modular water treatment systems. OriginClear is acquiring companies to help industrial water users treat their water themselves, and often reuse it. We believe those companies are going to grow tremendously because of this "local water" growth trend. We believe that assembling a group of water treatment companies is an opportunity for significant growth and increased Company value for the stockholders.

Progressive Water Treatment

On October 1, 2015, Dallas-based Progressive Water Treatment, Inc. ("PWT") became the first company in the Group. PWT is a fast-growing designer, builder and service provider for a wide range of industrial water treatment applications. PWT reported revenue of $4,794,637 for the period ending December 31, 2016. For the first nine months of 2017, PWT reported revenue of $2,215,491 which is included in the consolidated financial statements ending September 30, 2017.

PWT's Business

Since 1995, PWT has been designing and manufacturing a complete line of water treatment systems for municipal, industrial and pure water applications. Known as an OEM (Original Equipment Manufacturer), PWT utilizes a wide range of technologies, including chemical injection, media filters, membrane, ion exchange and SCADA technology, in turnkey systems that it designs and builds. PWT also offers a broad range of services including maintenance contracts, retrofits and replacement assistance. In addition, PWT rents equipment through contracts of varying duration. Customers are primarily served in the United States and Canada, with PWT's reach extending worldwide from Japan to Argentina to the Middle East.

OriginClear is currently in discussions for additional, accretive acquisitions of companies specializing in complementary markets and applications.

Technology Licensing

For its first eight years of operations, OriginClear focused uniquely on development and commercialization of its breakthrough Electro Water Separation™ technology. In 2015, the technology went into commercial phase, and the Company launched it as OriginClear Technologies, operating in parallel to the Group. The mission of OriginClear Technologies is to develop Electro Water Separation™ and achieve its full recognition as an international industry standard in treating our increasingly complex wastewater treatment challenges. For this purpose, OriginClear Technologies relies on an ongoing strong R&D and engineering activity for the development of its technology, while actively building its network of partners, licensees and joint venture partners for commercial development. A key element of this strategy is OriginClear (HK), OriginClear's wholly-owned subsidiary in Hong Kong that manages Asia-Pacific market development, with a special focus on China sales and manufacturing. While OriginClear Technologies focuses on developing and monetizing the Company's internally-developed Intellectual Property, best practices and trade secrets, it is expected to do the same for technologies which may result in future from the Group's acquisition of profitable water treatment companies.

The Technology

OriginClear is the proprietary developer of Electro Water Separation™ (EWS), the high-speed, primarily chemical-free technology to clean up large quantities of water. It removes oils, suspended solids, certain dissolved solids, and pathogens, in a continuous and energy-efficient process. The Company originally developed this technology to solve the challenge of removing microalgae from a highly dilute state. The EWS technology remains the most efficient non-chemical, continuous mechanism for the concentration of live algae cells from water. The electro-chemical process was then extended, first to cleaning up oil and gas waste water and most recently, to industrial, agricultural and urban effluents. These water treatment applications are entirely electrochemical in nature and do not rely on algae for its cleaning capabilities, which is a separate application of the technology. EWS is designed to be an early step in removal of oils, solids and pathogens; reducing the work that more expensive, downstream processes such as Ultra Filtration or Reverse Osmosis must do, therefore enabling more cost-efficient and high-volume water cleanup overall.

In March of 2016, OriginClear announced that it had successfully developed and proved Advanced Oxidation for its breakthrough water cleanup system, EWS. University laboratory tests have shown that EWS with Advanced Oxidation (EWS:AOx™) can now extract dissolved contaminants, which are otherwise difficult to remove without chemicals such as chlorine. Overall, the system has shown a dramatic reduction in Total Organic Compounds which includes all forms of organic contamination, solids, miscible or dissolved, to meet new stringent global discharge requirements. Even prior to this innovation, EWS, combined with an iSep ultrafiltration membrane, demonstrated up to a 99.9% removal of dispersed oil, 99.5% removal of suspended solids as well as successful treatment of chemical oxygen demand (COD), including specific contaminants such as ammonia, phosphorus and hydrogen sulfide. These results were presented at the International Water Conference in 2015. In 2016, OriginClear filed for a patent, which is still pending, to protect the new AOx process and system configuration.

Today, we are capable of pairing the two technologies as EWS:AOx™, or separately, as the application requires. OriginClear believes that its technology is valuable to the industry because it has the potential to greatly extend the life of membranes and filters by effectively treating very dirty, oily water, while reducing chemical use significantly. OriginClear also believes that its Advanced Oxidation technology will help neutralize harmful micro-contaminants, such as industrial solvents, which is difficult or impossible to achieve with other technologies. Overall, the system has shown a dramatic reduction in Total Organic Compounds which includes all forms of organic contamination, solids, miscible or dissolved, to meet new stringent global discharge requirements.

Recently, with our initial commercial contract for a landfill upgrade in Malaysia, we have shown that our systems can be retrofitted into existing installations, avoiding the time and expense of ground-up construction and enabling rapid compliance with new, stringent discharge regulations for treatment companies.

Targeting the microtoxins in drinking water

Nearly two-thirds of the human body is water. And that water (entering our bodies directly, or indirectly through food), is increasingly contaminated with a potent mix of chemicals, such as glyphosate or Roundup, atrazine, dioxane, estrogen, pharmaceutical drugs and much, much more. These chemicals are directly implicated in many disorders including cancer. Their effect may be greatly increased as a cocktail of chemicals, the destructiveness of which we can only guess at. Bottled water is often contaminated, too. In fact, it is very difficult to find truly pure water, whether in the water we drink, or in the water that irrigates our crops.

In the water treatment industry, Advanced Oxidation Process (AOP) is employed to create abundant reactive oxygen species (ROS), which kill all organic material, even many of the micro-toxins that are otherwise so difficult to remove. OriginClear believes it has invented the next generation of AOP, using electrical reaction efficiently, and capable of being applied to drinking water in a variety of settings including, ultimately, the home. Our breakthrough process, for which we filed our latest patent in March of 2016, is called AOx. We used this process in July of 2017 to demonstrate in the laboratory the ability to virtually eliminate the herbicide glyphosate from drinking water by up to 99.3%, according to independent test results.

We believe that AOx can be a simpler and effective way to treat water for many micro-toxins at city treatment plants, at irrigation districts, in bottling water plants and eventually in the home.

We are continuing to test for various contaminants, and to invent ways to effect the removal of microtoxins, real-time and in a number of settings.

Meanwhile, we are pursuing research alliances. And in the future, we plan to work with licensing and joint venture partners to take the technology to market.

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

Equipment sales

We recognize revenue upon delivery of equipment, 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. Title to the equipment is transferred to the customer once the last payment is received. We record revenue as goods are shipped, and the equipment has been fully accepted by the customer. Generally, we extend credit to our customers and do not require collateral. We do not ship a product until we have a purchase agreement signed by the customer with a payment arrangement.

Percentage of completion

Revenues and related costs on construction contracts are recognized using the “percentage of completion method” of accounting in accordance with ASC 605-35 – “*Accounting for Performance of Construction-Type and Certain Production Type Contracts”*. Under this method, contract revenues and related expenses are recognized over the performance period of the contract in direct proportion to the costs incurred as a percentage of total estimated costs for the entirety of the contract. Costs include direct material, direct labor, subcontract labor and any allocable indirect costs. All un-allocable indirect costs and corporate general and administrative costs are charged to the periods as incurred. However, in the event a loss on a contract is foreseen, the Company will recognize the loss as it is determined.

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, warrants, convertible notes and common stock for services. 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 Nine months, the amounts reported for cash, prepaid expenses, accounts payable and accrued expenses approximate the fair value because of their short maturities.

Recently Issued Accounting Pronouncements

Management reviewed accounting pronouncements issued during the three months ended September 30, 2017, and no pronouncements were believed by management to have a material impact on our present or future financial statements.

Results of Operation

Results of Operations for the three months ended September 30, 2017 compared to the three months ended September 30, 2016.

Revenue and Cost of Sales

For the three months ended September 30, 2017, we had revenue of $1,112,438 compared to $1,019,919 for the three months ended September 30, 2016. Cost of sales for the three months ended September 30, 2017, was $949,657 compared to $574,105 for the three months ended September 30, 2016. Revenue and cost of sales increased primarily due to PWT's focus on operations.

Our gross profit was $162,781 and $445,814 for the three months ended September 30, 2017 and 2016, respectively.

Selling and Marketing Expenses

For the three months ended September 30, 2017, we had selling and marketing expenses of $539,975, compared to $303,496 for the three months ended September 30, 2016. Selling and marketing expenses increased primarily due to an increase in investor relations and marketing expense.

General and Administrative Expenses

General and administrative expenses increased to $830,444, for the three months ended September 30, 2017, compared to $629,455 for the three months ended September 30, 2016. General and administrative expenses increased primarily due to an increase in professional fees and outside services.

Research and Development Cost

Research and development cost for the three months ended September 30, 2017 and 2016, were $53,939 and $106,259, respectively. The decrease in research and development costs was primarily due to a decrease in outside services and other research and development costs.

Depreciation Expense

Depreciation expense for the three months ended September 30, 2017 and 2016 was $12,961 and $11,331, respectively. The increase was primarily due to the purchase of fixed assets.

Other Income and (Expenses)

Other income and (expenses) for the three months ended September 30, 2017 and 2016, were $(3,603,099) and $(8,411,891), respectively. The decrease in other income and (expenses) was the result of a change in loss of non-cash accounts associated with the fair value of the derivatives in the amount of $4,724,151, commitment fees of $51,919 and interest expense of $32,716, which includes non-cash amortization of debt discount of $(17,308).

Net Income (Loss)

Our net loss for the three months ended September 30, 2017 was $4,877,637, compared to a net loss of $9,016,618 for the three months ended September 30, 2016. The majority of the decrease in net loss was due primarily to a decrease in other expenses consisting of a decrease in loss in non-cash accounts associated with derivatives along with an increase in revenue, offset by a decrease in gross profit.

Results of Operations for the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016.

Revenue and Cost of Sales

For the nine months ended September 30, 2017, we had revenue of $2,294,891 compared to $ 4,321,378 for the nine months ended September 30, 2016. Cost of sales for the nine months ended September 30, 2017, was $2,031,334 compared to $2,899,507 for the nine months ended September 30, 2016. Revenue decreased primarily due to PWT’s focus on marketing.

Our gross profit was $263,557 and $1,421,871 for the nine months ended September 30, 2017 and 2016, respectively.

Selling and Marketing Expenses

For the nine months ended September 30, 2017, we had selling and marketing expenses of $2,165,213 compared to $1,419,566 for the nine months ended September 30, 2016. Selling and marketing expenses increased primarily due to an increase in investor relations and marketing expense.

General and Administrative Expenses

General and administrative expenses decreased to $1,842,815 for the nine months ended September 30, 2017, compared to $1,860,239 for the nine months ended September 30, 2016. General and administrative expenses decreased primarily due to our overall expense reduction efforts.

Research and Development Cost

Research and development cost for the nine months ended September 30, 2017 and 2016, were $136,582 and $447,034, respectively. The decrease in research and development costs was primarily due to a decrease in salaries, outside services and other research and development costs.

Depreciation Expense

Depreciation expense for the nine months ended September 30, 2017 and 2016, was $39,506 and $33,902, respectively. The increase was primarily due to the purchase of fixed assets.

Other Income and (Expenses)

Other income (expense) for the nine months ended September 30, 2017 and 2016, was $(4,739,243) and $(3,389,184), respectively. The increase in other expenses was primarily a result of a net change in loss of non-cash accounts associated with the fair value of the derivatives in the amount of $827,908, and a decrease in interest expense of $99,527 which includes non-cash amortization of debt discount of $(59,888), offset by an increase in commitment fees of $621,684.

Net Income/(Loss)

Our net loss for the nine months ended September 30, 2017 was $8,659,802, compared to a net loss of $5,728,054 for the nine months ended September 30, 2016. The majority of the increase in net loss was due primarily to an increase in other expenses consisting of an increase in loss in non-cash accounts associated with derivatives and a decrease in revenue and gross profit.

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.

The condensed consolidated 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 condensed consolidated financial statements do not reflect any adjustments that might result if the Company is unable to continue as a going concern. The Company has not generated 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. We obtained funds from our shareholders during the nine months ending September 30, 2017. Management believes the existing shareholders, the prospective new investors and future sales will provide the additional cash needed to meet the Company’s obligations as they become due, and will allow the development of its core business operations. No assurance can be given that any future financing will be available or, if available, that it will be on terms that are satisfactory to the Company. Even if the Company is able to obtain additional financing, it may contain undue restrictions on our operations, in the case of debt financing, cause substantial dilution for our stockholders, in case of equity financing.

At September 30, 2017 and December 31, 2016, we had cash of $342,164 and $351,321, respectively and working capital deficit of $12,090,561 and $11,056,570, respectively. The increase in working capital deficit was due to an increase in non-cash derivative liabilities and convertible notes, contracts receivable, inventory assets, accounts payable, accrued expenses, billing in excess of cost, deferred income, and loan payable, with a decrease in cash, cost in excess of billing and prepaid expenses.

Net cash used in operating activities was $1,296,392 for the nine months ended September 30, 2017, compared to $910,129 for the prior period ended September 30, 2016. The increase in cash used in operating activities was primarily due to an increase in cost of goods sold.

Net cash flows used in investing activities was $33,845 for the nine months ended September 30, 2017, as compared to $5,699 for the prior period ended September 30, 2016. The net increase in cash used in investing activities was due to an increase in equipment purchases in the current period.

Net cash flows provided by financing activities was $1,321,122 for the nine months ended September 30, 2017, as compared to $1,088,217 for the prior period ended September 30, 2016. The increase in cash provided by financing activities was due to an increase in equity financing through private placements. To date we have principally financed our operations through the sale of our common stock and the issuance of debt.

We do not have any material commitments for capital expenditures during the next twelve months. Although proceeds from the issuance of equity together with revenue from operations are currently sufficient to fund our operating expenses, we will need to raise additional funds in the future so that we can expand our operations. Therefore, our future operations are dependent on our ability to secure additional financing. Financing transactions may include the issuance of equity or debt securities, obtaining credit facilities, 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 or generate sufficient revenue, we may have to curtail our marketing and development plans and possibly cease our operations.

We have estimated our current average burn, and believe that we have assets to ensure that we can function without liquidation over the next twelve months, due to our cash on hand, growing revenue, and our ability to raise money from our investor base. Based on the aforesaid, we believe we have the ability to continue our operations for the foreseeable future and will be able to realize assets and discharge liabilities in the normal course of operations.

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.

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Pursuant to Rules 13a-15(b) and 15-d-15(b) under the Securities Exchange Act of 1934, as amended (“Exchange Act”), the Company carried out an evaluation, with the participation of the Company’s management, including the Company’s Chief Executive Officer and Chief Financial Officer (“CEO/CFO”) of the effectiveness of the Company’s disclosure controls and procedures as of the end of the period covered by this report. The term “disclosure controls and procedures”, as defined under Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

As disclosed in our annual report filing for the year ended December 31, 2016, there was a significant deficiency in the Company’s internal control over financial reporting due to a lack of segregation of duties due to small Company staff size. Based upon the evaluation of the disclosure controls and procedures at the end of the period covered by this report, the Company’s CEO/CFO concluded that the Company’s disclosure controls and procedures were ineffective due to the significant deficiency in the Company’s internal control over financial reporting.

To address the significant deficiency, we performed additional analysis and other post-closing procedures in an effort to ensure our condensed consolidated financial statements included in this review report have been prepared in accordance with generally accepted accounting principles. Accordingly, management believes that the financial statements included in this quarterly report on Form 10-Q fairly present in all material respects our financial condition, results of operations and cash flows for the periods presented.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company’s internal control over financial reporting (as defined in Rule 13a-15f of the Exchange Act) that occurred during the current period of 2017 that has materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

Limitations on Internal Controls

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

PART II

Item 1. Legal Proceedings.

None

Item 1A. Risk Factors.

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

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

None

Item 3. Defaults Upon Senior Securities.

None

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information.

Private Placement

As previously reported, the Company has commenced an offering under Regulation 506c of Regulation D (the "Private Placement") of the Securities Act of 1933, as amended (the "Securities Act") pursuant to which the Company shall sell units of its securities (the "Units") with each Unit consisting of (i) one restricted share of its common stock, (ii) a Class A Warrant to purchase one share of its common stock, (iii) a Class B Warrant to purchase one share of its common stock, (iv) a Class C Warrant to purchase one share of its common stock and (v) a Class D Warrant to purchase one share of its common stock to qualified investors. The Company may redeem the warrants, but only after one year from the investor's initial subscription, and only if the average stock price over a ten day period after that time is double the applicable warrant's exercise price. If accelerating, the Company must reduce each exercise price by 25%. The subscription documents contain a lock-up provision under which, subject to certain terms and conditions therein, the subscribers shall not sell any of their shares of common stock of the Company obtained in this Offering for a period of twelve months. The securities offered in the Private Placement will not be and have not been registered under the Securities Act and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

Between October 26, 2017 and November 13, 2017, the Company sold, in the Private Placement, an aggregate of 6,700,000 shares of its common stock to an accredited investor for an aggregate consideration of $167,500.

The securities referenced above were offered and sold pursuant to an exemption from registration under Section 4(a)(2) of the Securities Act, and Rule 506(c) of Regulation D promulgated under the Securities Act.

Consultant Issuances

Between October 31, 2017 and November 13, 2017, the Company issued to consultants an aggregate of 5,680,648 shares of the Company's common stock in lieu of cash consideration.

The securities referenced above were offered and sold pursuant to an exemption from the registration requirements under Section 4(a)(2) of the Securities Act.

Make Good Issuances

In connection with certain one-time make good agreements, on October 31, 2017, the Company issued an aggregate of 399,328 shares of its common stock to certain holders of its common stock.

The securities above were offered and sold pursuant to an exemption from the registration requirements under Section 4(a)(2) of the Securities Act since, among other things, the transactions did not involve a public offering.

Restricted Stock Grant Agreement

On November 10, 2017, the Company entered into a Restricted Stock Grant Agreement (the “RSGA”) with Jean Louis Kindler, the Company’s Chief Commercial Officer and Director, to create management incentives to improve the economic performance of the Company and to increase its value and stock price. The RSGA provides for the issuance of up to 2,000,000 shares of the Company’s common stock provided certain milestones are met in certain stages. All shares issuable under the RSGA are performance based shares and none have yet vested nor have any been issued.

Item 6. Exhibits.

Exhibit Number	Description of Exhibit
31	Certification by Chief Executive Officer and Chief Financial Officer, required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act.
32	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.
101.INS	XBRL Instance Document.*
101.SCH	XBRL Taxonomy Extension Schema.*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.*
101.DEF	XBRL Taxonomy Extension Definition Linkbase.*
101.LAB	XBRL Taxonomy Extension Label Linkbase.*
101.PRE	XBRL Extension Presentation Linkbase.*

* Attached as Exhibit 101 to this report are the following financial statements from the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2017 formatted in XBRL (eXtensible Business Reporting Language): (i) the Balance Sheets, (ii) the Statement of Operations, (iii) the Statement of Shareholders’ Equity, (iv) the Statement of Cash Flow, and (v) Notes to Financial Statements.

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.

ORIGINCLEAR, 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)

November 14, 2017