

Clean Coal Technologies Inc.
Form 10-Q
November 23, 2009

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended:

September 30, 2009

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____.

Commission file number: **000-50053**

CLEAN COAL TECHNOLOGIES, INC.

(Exact name of small business issuer as specified in its charter)

NEVADA

2691079442

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(State or other jurisdiction of
incorporation or organization)

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

12518 W Atlantic Blvd, Coral Springs, FL

(Address of principal executive offices)

33071

(Zip Code)

(954) 344-2727

(Issuer's telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), Yes ☒ and (2) has been subject to such filing requirements for the past 90 days. 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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒ Smaller reporting company ☐

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

The number of shares outstanding of Registrant's Common Stock as of November 20, 2009: 435,226,929

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The accompanying unaudited financial statements have been prepared in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission and, therefore, do not include all information and footnotes necessary for a complete presentation of our financial position, results of operations, cash flows, and stockholders' equity in conformity with generally accepted accounting principles. In the opinion of management, all adjustments considered necessary for a fair presentation of the results of operations and financial position have been included and all such adjustments are of a normal recurring nature.

Clean Coal Technologies Inc.
(A Development Stage Company)
Balance Sheets
(Unaudited)

	September 30, 2009	December 31, 2008
ASSETS		
Current Assets		
Cash	\$ 696	\$ 1,598
Total Current Assets	696	1,598
Property, plant and equipment, net of accumulated depreciation of \$229 and \$76, respectively	790	943
Investment	5,000	5,000
Total Assets	\$ 6,486	\$ 7,541
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities		
Accounts payable	\$ 451,436	\$ 355,423
Accounts payable to related parties	1,300,510	994,750
Advances from related parties	-	70,000
Accrued liabilities	133,999	66,017
Short-term debt	18,500	-
Debt owed to related parties	1,507,147	7,500
Total Current Liabilities	3,411,592	1,493,690
Debt owed to related parties	-	1,041,851
Total Liabilities	3,411,592	2,535,541
Common stock, \$0.00001 par value; 600,000,000 shares authorized, 435,226,929 and 430,689,469 shares issued and outstanding, respectively	4,353	4,307

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Additional paid-in capital	173,047,379	136,804,856
Deficit accumulated during the development stage	(176,456,838)	(139,337,163)
Total Stockholders' Deficit	(3,405,106)	(2,528,000)
Total Liabilities and Stockholders' Deficit	\$ 6,486	\$ 7,541

See Notes to the Financial Statements.

Clean Coal Technologies Inc.
(A Development Stage Company)
Statements of Expenses
(Unaudited)

	Three Months Ended		Nine Months Ended		October 20, 1997
	September 30,		September 30,		(Inception)
	2009	2008	2009	2008	Through
					September 30,
					2009
Operating Expenses:					
General and administrative	\$ 97,072	\$ 111,686	\$ 345,110	\$ 378,697	\$ 1,803,533
Research and development	-	-	-	223,925	374,912
Consulting services	5,500,186	22,500,423	16,299,786	92,928,354	153,522,527
Loss from Operations	(5,597,258)	(22,612,109)	(16,644,896)	(93,530,976)	(155,700,972)
Other Income (Expenses):					
Interest expense	(25,132)	(26,448)	(74,587)	(52,969)	(300,332)
Other expenses	-	-	-	-	(13,985)
Loss on extinguishment of debt	-	-	-	-	(41,357)
Gain on change in derivative liability	-	-	7,598,481	-	7,598,481
Total Other Income (Expense)	(25,132)	(26,448)	7,523,894	(52,969)	7,242,807
Net Loss	\$ (5,622,390)	\$ (22,638,557)	\$ (9,121,002)	\$ (93,583,945)	\$ (148,458,165)
	\$ (0.01)	\$ (0.05)	\$ (0.02)	\$ (0.23)	

Net loss per share
- basic and diluted

Weighted average
shares outstanding

-				
basic and diluted	435,643,624	417,361,929	438,080,654	413,799,076

See Notes to the Financial Statements.

Clean Coal Technologies Inc.
(A Development Stage Company)
Statement of Stockholders' Deficit
(Unaudited)

	Common Stock		Additional	Deficit	
	Shares	Amount	Paid-In	Accumulated	Stockholders'
			Capital	During the	Deficit
				Development	
				Stage	
Balances at December 31, 2008	430,689,469	\$ 4,307	\$136,804,856	\$(139,337,163)	\$(2,528,000)
Cumulative effect of change in accounting principle - January 1, 2009 reclassification of embedded feature of equity-linked financial instruments to derivative liabilities	-	-	(16,490,517)	(27,998,673)	(44,489,190)
Derivative liability removed due to warrants exercised	-	-	36,890,709	-	36,890,709
Common stock issued for services	716,666	8	1,789,155	-	1,789,163
Accrued stock-based compensation	-	-	13,969,083	-	13,969,083
Common stock issued upon cashless exercise of warrants	8,814,483	88	(88)	-	-
Forgiveness of related party debt	-	-	69,553	-	69,553

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Shares issued for debt and accrued interest	6,311	-	14,578	-	14,578
Cancellation of common stock	(5,000,000)	(50)	50	-	-
Net loss	-	-	-	(9,121,002)	(9,121,002)
Balances at September 30, 2009	435,226,929	\$ 4,353	\$173,047,379	\$(176,456,838)	\$(3,405,106)

See Notes to the Financial Statements.

Clean Coal Technologies Inc.
(A Development Stage Enterprise)
Statements of Cash Flows
(Unaudited)

	Nine Months Ended		October 20, 1997
	September 30,		(Inception)
			Through
	2009	2008	September 30,
			2009
CASH FLOWS FROM			
OPERATING ACTIVITIES:			
Net Loss	\$ (9,121,002)	\$ (93,583,945)	\$ (148,458,165)
Adjustment to reconcile net loss to net cash used in operating activities:			
Depreciation expense	153	-	5,549
Shares issued for services	15,758,246	77,331,492	134,686,486
Warrant expense	-	15,128,916	16,490,517
Loss on extinguishment of debt	-	-	41,357
Interest expense paid in shares	508	-	51,013
Interest converted to debt	-	20,531	22,600
Write-off of asset	-	-	11,015
Gain on derivative liability	(7,598,481)	-	(7,598,481)
Changes in operating assets and liabilities:			
Prepaid expenses and other current assets	-	(1,268)	(11,015)
Accounts payable	96,013	117,153	451,436
Accounts payable - related party	736,271	868,136	2,311,311
Accrued expenses	77,890	29,635	137,337
Net Cash Used In Operating Activities	(50,402)	(89,350)	(1,859,040)
CASH FLOWS FROM			
INVESTING ACTIVITIES:			
Purchase of fixed assets	-	(1,019)	(6,339)
Investment in joint venture	-	-	(5,000)
Net Cash Used in Investing Activities	-	(1,019)	(11,339)

CASH FLOWS FROM
FINANCING ACTIVITIES:

Advances from related parties	11,000	-	316,000
Borrowings on debt	18,500	-	18,500
Borrowings on related party debt	20,000	103,961	1,536,575
Net Cash Provided by Financing Activities	49,500	103,961	1,871,075

NET CHANGE IN CASH AND
CASH EQUIVALENTS

(902)	13,592	696
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CASH AND CASH

EQUIVALENTS - beginning of
period

1,598	1,730	-
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CASH AND CASH

EQUIVALENTS - end of period

\$ 696	\$ 15,322	\$ 696
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SUPPLEMENTAL
DISCLOSURES:

Cash paid for interest	\$ -	\$ -	\$ -
Cash paid for income taxes	-	-	-

NON-CASH INVESTING AND
FINANCING ACTIVITIES:

Forgiveness of related party debt and accrued interest	\$ 69,553	\$ -	\$ 69,553
Derivative liability removed due to warrants exercised	36,890,709	-	36,890,709
Cumulative effect of change in accounting principle	44,489,190	-	44,489,190
Preferred stock issued for related party debt	-	-	380,837
Preferred stock converted to common stock	-	-	481
Debt converted to common stock	-	-	924,277
Related party payables and advances converted to debt	511,511	815,290	1,326,801
Accrued interest converted to debt	14,070	2,069	-

See Notes to the Financial Statements.

Clean Coal Technologies, Inc.
(A Development Stage Company)
Notes to Financial Statements
(Unaudited)

NOTE 1: BASIS OF PRESENTATION

The accompanying unaudited interim financial statements of Clean Coal Technologies, Inc. have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules of the Securities and Exchange Commission, and should be read in conjunction with the audited financial statements and notes thereto contained in Clean Coal's Registration Statement on Form 10 filed with the SEC. In the opinion of management, the accompanying unaudited interim financial statements reflect all adjustments, consisting of normal recurring adjustments, necessary to present fairly the financial position and the results of operations for the interim period presented herein. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year or for any future period. Notes to the financial statements which would substantially duplicate the disclosure contained in the audited financial statements for fiscal 2008 as reported in the Form 10 have been omitted.

DERIVATIVE FINANCIAL INSTRUMENTS

Clean Coal does not use derivative instruments to hedge exposures to cash flow, market, or foreign currency risks. Clean Coal evaluates all of its financial instruments to determine if such instruments are derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported as charges or credits to income. For option-based derivative financial instruments, Clean Coal uses the Black-Scholes option-pricing model to value the derivative instruments at inception and subsequent valuation dates. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is re-assessed at the end of each reporting period. Derivative instrument liabilities are classified in the balance sheet as current or non-current based on whether or not net-cash settlement of the derivative instrument could be required within 12 months of the balance sheet date.

FAIR VALUE MEASUREMENTS

In September 2006, the FASB issued FASB ASC 820 which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The provisions of FASB ASC 820 were effective January 1, 2008.

As defined in FASB ASC 820, fair value is 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 (exit price). Clean Coal utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable. Clean Coal classifies fair value balances based on the observability of those inputs. FASB ASC 820 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurement).

The three levels of the fair value hierarchy defined by FASB ASC 820 are as follows:

Level 1 Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Level 1 primarily consists of financial instruments such as exchange-traded derivatives, marketable securities and listed equities.

Level 2 Pricing inputs are other than quoted prices in active markets included in level 1, which are either directly or indirectly observable as of the reported date. Level 2 includes those financial instruments that are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data or are supported by observable levels at which transactions are executed in the

marketplace. Instruments in this category generally include non-exchange-traded derivatives such as commodity swaps, interest rate swaps, options and collars.

Level 3 Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value.

Clean Coal uses Level 2 to value its warrant instruments and Level 1 to value its non cash common share transactions.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In July 2009, the Financial Accounting Standards Board (FASB) issued new guidance relating to the FASB Accounting Standards Codification at FASB ASC 105, as the single source of authoritative nongovernmental U.S. generally accepted accounting principles (GAAP). The codification is effective for interim periods ending after September 15, 2009. All existing accounting standards are superseded as described in FASB ASC 105. All other accounting literature not included in the Codification is non-authoritative. The adoption of FASB ASC 105 did not impact Clean Coal's results of operations, financial position or cash flows.

Effective this quarter, Clean Coal implemented FASB ASC 855 which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. The adoption of FASB ASC 855 did not impact Clean Coal's financial position or results of operations. Clean Coal evaluated all events or transactions that occurred after September 30, 2009 up through November 20, 2009, the date Clean Coal issued these financial statements. During this period, Clean Coal did not have any material recognizable subsequent events.

NOTE 2: GOING CONCERN

The accompanying financial statements have been prepared on a going concern basis of accounting which contemplates continuity of operations, realization of assets, liabilities, and commitments in the normal course of business. The accompanying financial statements do not reflect any adjustments that might result if the Clean Coal is unable to continue as a going concern. Clean Coal has an accumulated deficit and a working capital deficit as of September 30, 2009 with no revenues anticipated for the near term. Management believes Clean Coal will need to raise capital in order to operate over the next 12 months. As shown in the accompanying financial statements, Clean Coal has also incurred significant losses since inception. Clean Coal's continuation as a going concern is dependent upon its ability to generate sufficient cash flow to meet its obligations on a timely basis and ultimately to attain profitability. Clean Coal has limited capital with which to pursue its business plan. There can be no assurance that

Clean Coal's future operations will be significant and profitable, or that Clean Coal will have sufficient resources to meet its objectives. These conditions raise substantial doubt as to Clean Coal's ability to continue as a going concern. Management may pursue either debt or equity financing or a combination of both, in order to raise sufficient capital to meet Clean Coal's financial requirements over the next twelve months and to fund its business plan. There is no assurance that management will be successful in raising additional funds.

NOTE 3: RELATED PARTY TRANSACTIONS

Debt from related parties

During March 2009, Clean Coal was relieved of its obligation to repay principal of \$66,215 and accrued interest of \$3,338 by a shareholder of Clean Coal. The extinguishment is shown on the Statement of Stockholders' Deficit as forgiveness of related party debt.

On September 4, 2009, Clean Coal issued 6,311 common shares to repay principal of \$7,500 and accrued interest of \$7,078 due to Neil Goodfriend, a shareholder of Clean Coal.

A summary of the debt from related parties outstanding as of September 30, 2009 is as follows:

Date of Note	To Whom	Maturity Date	Interest Rate	Principal Balance
April 3, 2008	C J Douglas	April 3, 2010	10%	\$ 103,961
April 15, 2008	Larry Hunt	April 15, 2010	10%	104,959

June 30, 2008	C J Douglas	June 30, 2010	10%	266,770
June 30, 2008	Larry Hunt	June 30, 2010	10%	247,305
June 30, 2008	ERC	June 30, 2010	10%	252,641
August 17, 2009	CJ Douglas	On Demand	0%	20,000
September, 30, 2009	Joel Marcus	On Demand	0%	11,000
September 30, 2009	Jeff Miller	On Demand	0%	10,000
September 30, 2009	Jay Lasner	On Demand	0%	10,000
September 30, 2009	Zak Nathan	On Demand	0%	50,000
September 30, 2009	Larry Hunt	On Demand	0%	91,466
September 30, 2009	C J Douglas	On Demand	0%	339,045
				\$ 1,507,147

All of the notes listed above are unsecured except for the August 17, 2009 note payable to CJ Douglas. This note is secured by 200,000 common shares of Clean Coal.

During September 2009, an aggregate of \$511,511 of advances from and payables due to related parties were converted to notes payable to related parties reflected above. The notes are unsecured, due on demand and bear no interest.

Advances from related parties

At September 30, 2009, there were no unpaid advances from related parties.

Accounts payable from related parties

At September 30, 2009, unpaid services provided by related parties totaled \$1,300,510, which was included in accounts payable from related parties.

NOTE 4: NOTES PAYABLE

Between May 14 and September 4, 2009, Clean Coal borrowed \$18,500 from an unrelated third party. The loans bear interest at 10% per annum and mature between May 13 and September 3, 2010. One year from the date of the loans, the principal and accrued interest become convertible into common shares of Clean Coal at 50% of the market price of Clean Coal's common stock on the conversion date.

NOTE 5: EQUITY TRANSACTIONS

On November 1, 2007, Clean Coal entered into an employment agreement with its President and Chief Executive Officer whereby the President and Chief Executive Officer is entitled to a stock bonus of 15,404,549 common shares. The stock is to be awarded as follows: 33% on December 31, 2008, 33% on December 31, 2009 and 33% on December 31, 2010 contingent upon employment with Clean Coal on each date. Clean Coal calculated the value of the award based upon the closing stock price on the reporting date December 31, 2007 and is expensing the award over the award periods. A total of \$13,969,083 was recognized as share-based compensation under this award for the nine months ended September 30, 2009 and is reflected as accrued stock-based compensation in the Statement of Stockholders' Deficit. As of September 30, 2009, a total of 5,151,516 shares have been issued under the agreement and are shown as outstanding in the Statement of Stockholders' Deficit.

On February 19, 2009, Clean Coal issued an aggregate of 8,814,483 common shares for the cashless exercise of 8,918,183 common stock warrants.

Between January and March 2009, Clean Coal issued a total of 716,666 common shares for services valued at \$1,789,163.

On September 4, 2009, Clean Coal issued 6,311 common shares to repay related party debt and accrued interest of \$14,578.

On September 21, 2009, Clean Coal cancelled 5,000,000 common shares previously issued and valued at par value.

SUMMARY OF STOCK WARRANTS

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)
Outstanding at January 1, 2008	-	\$ -	
Granted	8,918,183	0.05	
Exercised	-	-	
Outstanding at January 1, 2009	8,918,183	0.05	
Granted	-	-	
Exercised	(8,918,183)	0.05	
Outstanding at September 30, 2009	-	-	-
Warrants exercisable at September 30, 2009	-	\$ -	-

The weighted average grant date fair value of options granted during the years 2008 and 2009 was \$1.85 and \$0.00, respectively. There was no aggregate intrinsic value of options outstanding or exercisable at September 30, 2009.

NOTE 6: WARRANT DERIVATIVES

In June 2008, the FASB finalized FASB ASC 815-15, which lays out a procedure to determine if an equity-linked financial instrument (or embedded feature) is indexed to its own common stock. FASB ASC 815-15 is effective for fiscal years beginning after December 15, 2008. A total of 8,918,183 of Clean Coal's warrants that were previously classified in equity were reclassified to derivative liabilities on January 1, 2009 as a result of FASB ASC 815-15. Clean Coal estimated the fair value of these liabilities as of January 1, 2009 to be \$44,489,190 and recorded a reduction of \$16,490,517 to Additional Paid-in Capital and \$27,998,673 to Accumulated Deficit. The effect of this adjustment is recorded as a cumulative effect of change in accounting principle in our consolidated statement of stockholders' deficit.

The warrants were exercised on February 19, 2009 (see Note 5 for details). The fair value of these liabilities as of February 19, 2009 was \$36,890,709 resulting in a gain of \$7,598,481 for the nine months ended September 30, 2009. The remaining liability as of February 19, 2009 of \$36,890,709 was then reclassified to Additional Paid-in Capital as the warrants were exercised and settled for shares (see Note 5 for details).

Clean Coal used the Black-Scholes option pricing model to value the warrants using the following assumptions: number of warrants as set forth in the warrant agreements; no expected dividend yield; expected volatility ranging from 192% to 258%; risk-free interest rates ranging from 1.55% to 3.67%; and expected terms based on the simplified method.

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

FORWARD-LOOKING STATEMENTS AND FACTORS THAT MAY AFFECT FUTURE RESULTS

This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they do not materialize or prove correct, could cause our results to differ materially from those expressed or implied by such forward-looking statements. All statements other than statements of historical fact are statements that could be deemed forward-looking statements, including, but not limited to, statements concerning: our plans, strategies and objectives for future operations; new products or developments; future economic conditions, performance or outlook; the outcome of contingencies; expected cash flows or capital expenditures; our beliefs or expectations; activities, events or developments that we intend, expect, project, believe or anticipate will or may occur in the future; and assumptions underlying any of the foregoing. Forward-looking statements may be identified by their use of forward-looking terminology, such as believes, expects, may, should, would, will, intends, plans, estimates, anticipates, projects and similar words or expressions. You should not place undue reliance on these forward-looking statements, which reflect our management's opinions only as of the date of the filing of this Quarterly Report on Form 10-Q and are not guarantees of future performance or actual results. Forward-looking statements are made in reliance upon the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act).

Overview

Clean Coal Technologies, Inc. (We, Company or Clean Coal) owns a patented technology that we believe will provide clean energy at low costs through the use of the world's most abundant fossil fuel, coal. Our technology is designed to utilize controlled heat to extract and capture pollutants and moisture from low-rank coal, transforming it into a clean-burning, more energy-efficient fuel, prior to combustion. Our proprietary coal cleaning process is designed to ensure that the carbon in coal maintains its structural integrity during the heating process while the volatile matter (polluting material) within the coal turns into a gaseous state and is removed from the coal. We have trade-marked the name PRISTINE as a means of differentiating our processed product from the negative connotations generally associated with coal, and its traditional use. PRISTINE™ is applicable for a variety of applications, including coal-fired power stations, chemical byproduct extraction, and as a source fuel for coal to liquid technologies. To complement our core technology, we have entered into a technology option agreement to evaluate a carbon dioxide (CO₂) separation technology as an alternative approach to carbon capture and sequestration.

Our original Technology Option Agreement which expired on May 27, 2009 has been extended until December 31, 2009. Subject to a satisfactory outcome of our evaluation, it is the intention of both companies to enter into a global

licensing agreement for the CO2 technology to be marketed in conjunction with our core technology. We also recently began working with another technology development company to evaluate their fuel-to-liquid technology as a precursor to a potential joint marketing agreement, however, these discussions have not progressed and are currently on hold.,

Factors Affecting Results of Operations

Our operating expenses include the following:

-

Consulting expenses, which consist primarily of amounts paid for technology development and design and engineering services;

-

General and administrative expenses, which consist primarily of salaries, commissions and related benefits paid to our employees, as well as office and travel expenses;

-

Research and development expenses, which consist primarily of equipment and materials used in the development and testing of our technology; and

-

Legal and professional expenses, which consist primarily of amounts paid for audit, disclosure and reporting services.

Results of Operations

The following information should be read in conjunction with the financial statements and notes appearing elsewhere in this Report. We are a development stage company and have had no revenues from inception to date. We anticipate that we may not receive any significant revenues from operations until we begin to receive some revenues from our partnership share in our Chinese joint venture which we estimate will be approximately twenty-four months. We are presently in preliminary discussions with US and India interests to license our technology, which, if successful, would realize short term revenue opportunities. However, no agreements have been negotiated or executed and we cannot predict when or if any agreements will be completed.

For the Three and Nine Months Ended September 30, 2009 and 2008

Revenues

We have had no revenues for the three months and nine months ended September 30, 2009 and 2008 and do not anticipate any significant revenues for approximately twenty-four months, as stated above.

Operating Expenses

Our operating expenses for the three and nine months ended September 30, 2009 totaled \$5,597,258 and \$16,644,896 respectively, compared to \$22,612,109 and \$93,530,976, respectively, for the same periods in the prior year. The primary component of the operating expenses in both periods was for shares issued for services. The significant decrease in compensation expense for the 2009 fiscal periods is due to the differences in shares prices and number of shares and warrants issued in each year.

We recorded stock-based compensation to our CEO and president of \$130,000 and \$390,000 for the three and nine months ended September 30, 2009, which equated to the same amounts of \$130,000 and \$390,000 for the same periods in the prior year. In addition, during the nine months ended September 30, 2009, we issued 200,000 shares to Alpha Trade, an unrelated third party consultant, for public relations services valued at \$470,000, issued 250,000 shares to DeHeng Law Firm, our China legal representation, for legal services valued at \$625,000, issued 16,666 shares to Douglas Hague for services valued at \$81,663 and issued 250,000 shares to Rocky Lapomardo for consulting fees for a value of \$612,500.

Effective April 24, 2008, we entered into an exclusive agreement for Cappello Capital to assist us with financial advisory services, specifically the raising of capital through various potential transactions, including, but not limited to, private placements, strategic alliances, sale or merger, divestitures, recapitalization, or strategic acquisition. The agreement provided for us to compensate Cappello Capital through warrants with an exercise price of \$0.05 per share to purchase up to 5% of the Company on a fully diluted basis, with 2% of the warrants being due at the time of the signing of the agreement. Additionally we would be required to pay Cappello Capital a percentage of any financial transaction closed during the term of the agreement. We exercised our cancellation option on September 24, 2009 with Cappello Capital without any transaction being completed. However, under the terms of the agreement, Cappello exercised their signing warrants for a total of 8,814,483 common shares. The shares were issued February 19, 2009, and the issuance caused us to record a gain of \$7,598,481 for the six months ended June 30, 2009. See Note 6 of the attached financial statements. The derivative value at each measurement date and the resulting gain or loss from the change in value is determined using the Black Scholes option pricing model. When our stock price goes up, our derivative value tends to increase and when our stock price goes down our derivative value tends to decrease. Our stock price went down between January 1, 2009 and February 19, 2009 which caused the liability to decrease resulting in the gain. There were no derivatives at September 30, 2009.

Other than the expense recorded for stock compensation during the three and nine months ended September 30, 2009, operating expenses consisted of \$97,072 and \$345,110 respectively in general and administrative expenses. In the same periods in 2008, our other operating expenses included \$111,686 and \$378,697 in general and administrative expenses and \$0.00 and \$223,925 in research and development expenses.

In 2008, we recorded compensation to the Chairman and Board of Directors consisting of a one-time award of 170,000 restricted shares each, plus \$1,000, or \$3,000 per meeting, respectively, for either telephone or in-person attendance at monthly meetings. The value of the stock award was determined based on the market price of our stock as of the date of award. All Board of Directors cash fees have been accrued as of this date. Our CEO and President, Doug Hague is not compensated for his participation on our Board, however, he has an employment agreement that includes an irrevocable stock option equal to 5% of the total issued shares as of January 1, 2008, which are awarded over a three year period, based on continued employment and performance.

For nine months ended September 30, 2009, we elected to retain the services of two consultants, Larry Hunt and CJ Douglas, who were contracted originally to our predecessor company, Saudi American Minerals, Inc. Larry Hunt is related party who provides us with international and domestic business development related services. He is a long-time mine owner who is recognized as a leading expert on coal and other fossil fuels extraction and processing based on experience gained over 45 years of hands-on coal mining management and implementing production improvement processes. He is the architect behind our patented technology and also our founder, and was instrumental in developing our early market entry strategy for China. CJ Douglas is a shareholder who provides services that support the Company's administrative, investor relations, and accounting functions. Mr. Hunt's verbal consulting agreement was terminated subsequent to the end of the reporting period.

Net Income/Loss

For the three and nine months ended September 30, 2009 we experienced net losses of \$5,622,390 and \$9,121,002.

We had losses from operations of \$5,597,258 and \$16,644,896, respectively, as outlined above, and interest expense of \$25,132 and \$74,587. For the prior year periods, we had net losses of \$22,638,557 and \$93,583,945, respectively, due primarily to the share-based compensation detailed above.

We anticipate losses from operations will increase during the next twelve months due to anticipated increased payroll expenses as we add necessary staff and increases in legal and accounting expenses associated with becoming a reporting company. We expect that we will continue to have net losses from operations for several years until revenues from operating facilities become sufficient to offset operating expenses, unless we are successful in the sale of licenses for our technology.

Liquidity and Capital Resources

We have had no revenues since inception. We have obtained cash for research and development activities and operating expenses through advances and/or loans from affiliates and stockholders. Our technology has not yet been installed in an operating commercial facility and we anticipate it will be a minimum of 12 to 18 months until the first operational plant to be constructed with the Sino-Mongolia International Railroad Systems, Co. Ltd. of Inner Mongolia Autonomous Region, PRC (SMIRSC) our Chinese joint venture partner, is completed. This time frame represents a delay in our original estimate for the beginning of the initial construction of the facility due primarily a delay in obtaining the Chinese government approval of the Feasibility Study that is a prerequisite to the approval of our Cooperative Joint Venture Agreement (CJVA). The Feasibility Study was completed by the Shanghai Chemical Engineering Incorporation (SCEI) in April, 2009, and the Chinese Government's Certificate of Approval that was issued on June 5, 2009. We are currently awaiting the project's final approval by the Chinese Government which we

anticipate sometime during the fourth quarter of fiscal 2009. Once this approval is obtained we will be able to complete the final design and commence construction, which we hope will begin by year end. Once the initial phase of the plant is completed and fully operational, we should begin to receive our 25% partnership share of some revenues from plant operations but we cannot predict exactly when those revenues will start.

Net Cash Provided by Operating Activities. Our primary sources of operating cash during the nine months ended September 30, 2009 was loans from related and unrelated parties. Loans are in the form of notes which bear a 10% interest rate and 24-month maturity. Our primary uses of funds in operations were payments made to our consultants and employees, as well as travel and office expenses.

Net cash used in operating activities was \$50,402 for the nine months ended September 30, 2009 compared to net cash used of \$89,350 for the same period in 2008. The decrease in cash used in operating activities in 2009 was due primarily to lower operating expenses as the company's operations have been restricted in 2009 due to limited funding. Non-cash items included shares issued for services valued at \$15,758,246, depreciation expense of \$153, shares issued for interest expense valued at \$508 and a gain on derivative liability of \$7,598,481. During the nine months ended September 30, 2009, we experienced an increase in accounts payable of \$96,013, an increase in related party payables of \$736,271 and an increase in accrued liabilities of \$77,890. Net cash used in operating activities from inception through September 30, 2009 totaled \$1,859,040.

Net Cash Used In Investing Activities. We did not engage in investing activities for the nine months ended September 30, 2009 or 2008. From inception through September 30, 2009, net cash used in investing activities totaled \$11,339 for the purchase of fixed assets and a deposit.

Net Cash Provided by Financing Activities. Net cash provided by financing activities during the nine months ended September 30, 2009 totaled \$49,500, consisting of loans from third parties and advances from related parties. Net cash provided by financing activities during the nine months ended September 30, 2008 totaled \$103,961 consisting of loans from related parties. From inception through September 30, 2009, net cash provided by financing activities totaled \$1,871,075 due to loans and advances from related and third parties.

Cash Position and Outstanding Indebtedness

Our total indebtedness at September 30, 2009 was \$3,411,592, consisting entirely of current liabilities. Current liabilities consist primarily of accounts payable, accounts payable to related parties, advances from related parties, short-term debt and accrued expenses. At September 30, 2009, we had current assets of \$696 in cash. We had property, plant and equipment (net of accumulated depreciation) of \$790 and a deposit of \$5,000 as at September 30, 2009.

Contractual Obligations and Commitments

The following table summarizes our contractual cash obligations and other commercial commitments at September 30, 2009.

	Total	Payments due by period				After 5 years
		Less than 1 year	1 to 3 years	3 to 5 years		
Facility lease ⁽¹⁾	\$ 26,480	\$ 26,480	\$ -	\$ -	\$ -	-
SMIRSC contract ⁽²⁾	8,333,000	-	-	-	-	-
 Total contractual cash obligations	 \$ 8,359,480	 \$ 26,480	 \$ -	 \$ -	 \$ -	 -

(1) Our lease term runs until May 31, 2010, at a minimum monthly rate of \$3,310 per month for approximately 1,450 square feet.

(2) In December 2008, we signed a JV agreement with SMIRSC that requires us to make an initial payment of \$1,670,000 for our initial registered capital contribution within 90 days after the final approvals, with a balance of \$6,660,000 payable within 24 months. Although we do not yet have a date certain for the final approvals, we believe it will be prior to December 31, 2009.

Based on our current operational costs, we will need approximately \$5,000,000 to fund our operations for the next 12 months, and a similar additional amount to continue operations for the following twelve months, or until the initial plant is up and running. We are contractually required to provide approximately \$1,670,000, representing the first 20% of our partnership contribution, within ninety days of the Chinese government issuing their final approval of our project. The pre-requisite feasibility study was completed in April, 2009, and our Certificate of Approval (Operating License) was issued by the Inner Mongolia government on June 5, 2009. We expect to receive the final approval sometime in the fourth quarter of fiscal 2009, as described above. The remaining portion of our funding for the joint venture will be due within twenty-four months of our receipt of the final government approval. Accordingly, we estimate we need to raise \$5,000,000 for the balance of 2009, and \$13,400,000 for 2010 in order to meet our funding commitments and continue operations.

At this filing date, we do not have firm commitments for funding but intend to seek sufficient debt or equity funding to meet both our capital contribution deadlines and funding sufficient for our operations. We are actively pursuing technology license and royalty agreements in order to begin construction of other facilities without incurring the capital costs associated with the construction of future plants. Our engineering consultant, Benham Companies, LLC (Benham) has tentatively estimated construction costs for each one million short ton coal cleaning facility of approximately \$150 million (excluding land costs). We are in discussions with several interested parties who may fund some or all of the estimated costs but have no definitive agreements in place.

Under the terms of our consulting agreement with Benham, we are obligated to pay to Benham a fee representing five percent of all gross revenues received by us from the sale of our technology, the operation of franchised plants utilizing the technology or revenue received on any other basis that is related to the technology. This fee will remain in effect for a period of 15 years, commencing from the date that we receive our initial revenue stream from the Chinese operations. All intellectual property rights associated with new art developed by Benham remain the property of CCTI, however Benham would have a right to use the intellectual property provided they are deployed in non-competitive projects.

SMIRSC previously provided us with documentation supporting its financial viability through an \$8 billion line of credit with the state-owned China Development Bank. However, the economic situation in China has deteriorated with the general decline in the world marketplace. While we believe this project is of particular importance to both SMIRSC and the Chinese government, any change in SMIRSC's ability to meet its funding obligations would place the whole project in serious jeopardy.

Off-Balance Sheet Arrangements

We have not and do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of establishing off-balance sheet arrangements or other contractually narrow or limited purposes. Therefore, we do not believe we are exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to changes in prevailing market interest rates affecting the return on our investments but do not consider this interest rate market risk exposure to be material to our financial condition or results of operations. We invest primarily in United States Treasury instruments with short-term (less than one year) maturities. The carrying amount of these investments approximates fair value due to the short-term maturities. Under our current policies, we do not use derivative financial instruments, derivative commodity instruments or other financial instruments to manage our exposure to changes in interest rates or commodity prices.

ITEM 4. CONTROLS AND PROCEDURES

As of September 30, 2009, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer (the same person), of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended. Based on this evaluation, management concluded that our financial disclosure controls and procedures were not effective due to our limited internal resources and lack of ability to have multiple levels of transaction review. We presently have only one officer and one employee. Inasmuch as there is no segregation of duties within the Company, there is no management

oversight, no control documentation being produced, and no one to review control documentation if it was being produced.

There were no changes in disclosure controls and procedures that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially effect, our disclosure controls and procedures. We do not expect to implement any changes to our disclosure controls and procedures until there is a significant change in our operations or capital resources.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is named as a defendant in a lawsuit filed on December 15, 2008 in the Circuit Court of the 17th Judicial Circuit in and for Broward County, Florida, case number 0860922. The suit appears to be a dispute regarding a private transaction or transactions possibly involving stockholders of the Company. The Company does not believe the inclusion of the Company in litigation over a private transaction has merit but is in the process of evaluating the suit and cannot currently assess its implications, if any.

We are named as a defendant in a lawsuit filed on or about June 30, 2009 in the Second Judicial Circuit of the State of Nevada in and for Washoe County, case number 09-cv-02026. The suit is a dispute regarding the removal of a legend on restricted stock. We do not believe the legend removal is proper and will contest the action vigorously until one year has elapsed since our filing of a registration statement on Form 10 with the United States Securities and Exchange Commission, filed January 14, 2009, and thereafter to trial since plaintiff is seeking recovery for alleged damages caused by the refusal to remove the legend. We believe that we have meritorious defenses to all claims however an adverse decision would materially and adversely impact us.

We are named as a defendant in an Action for Declaratory Judgment filed on or about February 24, 2009 in the Circuit Court of the 17th Judicial Circuit in and for Broward County, Florida, Case No. 09-10720(09). The

action alleges that the plaintiff, First Northwest Investments, Inc., is entitled to 1.6 million shares of the Company's stock as compensation for allegedly performed services. We vigorously dispute those claims. A Default Final Judgment was entered against us in favor of the Plaintiff ordering release of a stock certificate for 1.6 million shares to the plaintiff and stating that such shares were entitled to be treated as free trading status under SEC Rule 144. Pursuant to our Motion for Relief from a Final Judgment Based on Fraud, the Court entered an order July 22, 2009 stating that the shares may not be transferred nor the restrictive legend removed until further order of the Court. No further motion or hearing is currently pending and we believe we will ultimately prevail in the matter.

We brought suit against a shareholder, the person who sold to the shareholder and at least two persons who we believe acted as brokers in the transaction(s) to enjoin the shareholder from having the legend removed from the shares prior to January 14, 2010. The suit was filed in the United States District Court for the District of Southern Florida under Civil Action No. 09-60350. Our suit was dismissed by the Court on November 18, 2009. We are currently considering our available alternatives.

ITEM 1A. RISK FACTORS

We have no operating revenues yet and we have made no provision for any contingency, unexpected expenses or increases in costs that may arise.

We are a development stage company and have no revenues from operations to use for operating expenses or research and development. Since inception, we have been able to cover our operating losses from debt and equity financing. These sources of funds may not be available to cover future operating losses. If we are not able to obtain adequate sources of funds to operate our business we may not be able to continue as a going concern.

Our business strategy and plans could be adversely affected in the event we need additional financing and are unable to obtain such funding when needed. It is possible that our available funds may not be sufficient to meet our operating expenses, development plans, and capital expenditures for the next twelve months. Insufficient funds may prevent us from implementing our business strategy or may require us to delay, scale back or eliminate certain opportunities for the commercialization of our technology. If we cannot obtain necessary funding, then we may be forced to cease operations.

We may experience delays in resolving unexpected technical issues arising in completing development of new technology that will increase development costs and postpone anticipated sales and revenues.

As we develop, refine and implement our technology, we may have to solve technical, manufacturing and/or equipment-related issues. Some of these issues are ones that we cannot anticipate because the technology we are developing is new. If we must revise existing manufacturing processes or order specialized equipment to address a particular issue, we may not meet our projected timetable for bringing commercial operations on line. Such delays may interfere with our projected operating schedules, delay our receipt of licensing and royalty revenues from operations and decrease royalties from operations.

Because we have limited experience, we may be unable to successfully manage planned growth as we complete the transition from a technology development company to a licensing company.

We have limited experience in the commercial marketing arena, limited sales and marketing experience, and limited staff and support systems, especially compared to competitors in the energy industry. In order to become profitable through the commercialization of our technology, it must be cost-effective and economical to implement on a commercial scale. Furthermore, if our technology does not achieve, or if it is unable to maintain, market acceptance or regulatory approval, we may not be profitable.

Our success depends, in part, on our ability to license and market our technology effectively. We have limited marketing and sales capabilities. Although we may hire consultants to assist us in this transition period, we may not correctly ascertain or assess any and all risks inherent in the industry. We may not be successful in entering into new licensing arrangements, engaging independent sales representatives or partners, or recruiting, training and retaining an internal marketing staff and sales force, if necessary. If we are unable to meet the challenges posed by our planned licensing and sales growth, our business may fail.

The market in which we are attempting to sell our technology is highly competitive.

The market for our technology is highly competitive on a global basis, with a number of competitors having significantly greater resources and more established market penetration than us. Because of greater resources

and more widely accepted brand names, many of our competitors may be able to adapt more quickly to changes in the markets we have targeted or devote greater resources to the development and sale of new technology products. Our ability to compete is dependent on our emerging technology which may take some time to develop market acceptance. To improve our competitive position, we may need to make significant ongoing investments in service and support, marketing, sales, research and development and intellectual property protection. We may not have sufficient resources to continue to make such investments or to secure a competitive position within the market we target.

Our business depends on the protection of our patents and other intellectual property and may suffer if we are unable to adequately protect such intellectual property.

Our success and ability to compete are substantially dependent upon our intellectual property. We rely on patent laws, trade secret protection and confidentiality or license agreements with our employees, consultants, strategic partners and others to protect our intellectual property rights. However, the steps we take to protect our intellectual property rights may be inadequate. There are events that are outside of our control that pose a threat to our intellectual property rights as well as to our products and services. For example, effective intellectual property protection may not be available in every country in which we license our technology. Also, the efforts we have taken to protect our proprietary rights may not be sufficient or effective. Any impairment of our intellectual property rights could harm our business and our ability to compete. Also, protecting our intellectual property rights is costly and time consuming. Any increase in the unauthorized use of our intellectual property could make it more expensive to do business and harm our operating results. In addition, other parties may independently develop similar or competing technologies designed around any patents that may be issued to us.

We have been granted one U.S. patent and have several U.S. patent applications pending relating to certain aspects of our technology and we may seek additional patents on future innovations. Our ability to license our technology is substantially dependent on the validity and enforcement of these patents and patents pending. We cannot assure you that our patents will not be invalidated, circumvented or challenged, that patents will be issued for our patents pending, that the rights granted under the patents will provide us competitive advantages or that our current and future patent applications will be granted.

Third parties may invalidate our patents

Third parties may seek to challenge, invalidate, circumvent or render unenforceable any patents or proprietary rights owned by or licensed to us based on, among other things:

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subsequently discovered prior art;

-

lack of entitlement to the priority of an earlier, related application; or

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failure to comply with the written description, best mode, enablement or other applicable requirements.

United States patent law requires that a patent must disclose the best mode of creating and using the invention covered by a patent. If the inventor of a patent knows of a better way, or best mode, to create the invention and fails to disclose it, that failure could result in the loss of patent rights. Our decision to protect certain elements of our proprietary technologies as trade secrets and to not disclose such technologies in patent applications, may serve as a basis for third parties to challenge and ultimately invalidate certain of our related patents based on a failure to disclose the best mode of creating and using the invention claimed in the applicable patent. If a third party is successful in challenging the validity of our patents, our inability to enforce our intellectual property rights could seriously harm our business.

We may be liable for infringing the intellectual property rights of others.

Our technology may be the subject of claims of intellectual property infringement in the future. Our technology may not be able to withstand any third-party claims or rights against their use. Any intellectual property claims, with or without merit, could be time-consuming, expensive to litigate or settle, could divert resources and attention and could require us to obtain a license to use the intellectual property of third parties. We may be unable to obtain licenses from these third parties on favorable terms, if at all. Even if a license is available, we may have to pay substantial royalties to obtain it. If we cannot defend such claims or obtain necessary licenses on reasonable terms, we may be precluded from offering most or all of technology and our business and results of operations will be adversely affected.

Our ability to execute our business plan would be harmed if we are unable to retain or attract key personnel.

Our technology is being marketed by a small number of the members of our management. Our technology is being developed and refined by a small number of technical consultants. Our future success depends, to a significant extent, upon our ability to retain and attract the services of these and other key personnel. The loss of the services of one or more members of our management team or our technical consultants could hinder our ability to effectively manage our business and implement our growth strategies. Finding suitable replacements could be difficult, and competition for such personnel of similar experience is intense. We do not carry key person insurance on our sole officer.

Overseas development of our business is subject to international risks, which could adversely affect our ability to license profitable overseas plants.

We believe a significant portion of the growth opportunity for our business lies outside the United States. Doing business in foreign countries may expose us to many risks that are not present domestically. We lack significant experience dealing with such risks, including political, military, privatization, technology piracy, currency exchange and repatriation risks, and higher credit risks associated with customers. In addition, it may be more difficult for us to enforce legal obligations in foreign countries, and we may be at a disadvantage in any legal proceeding within the local jurisdiction. Local laws may also limit our ability to hold a majority interest in the projects that we develop.

We do not know if coal processed using our technology is commercially viable.

We do not yet know whether coal processed using our technology can be produced and sold on a commercial basis in a cost effective manner after taking into account the cost of the feedstock, processing costs, license and royalty fees and the costs of transportation. Because we have not experienced any full scale commercial operations, we have not yet developed a guaranteed efficient cost structure. We are currently using the estimates for anticipated pricing and costs, as well as the qualities of the coal processed in the laboratory setting to make such estimates. We may experience technical problems that could make the processed coal more expensive than anticipated. Failure to address both known and unforeseen technical challenges may materially and adversely affect our business, results of operations and financial condition.

We have experienced large net losses, have little liquidity and need to obtain funds for operations or we may not be able to continue.

We have a net loss of \$148,458,165 since inception. The net losses to date include large non-cash expenses recorded for share-based compensation for consultants and officer compensation. Cash for operating expenses to date has been received through loans and advances from existing shareholders. Based on our current operational costs, we will need approximately \$5,000,000 to fund our operations for the next 12 months, and a similar additional amount to continue operations for the following twelve months, or until the initial plant is up and running. We are contractually required to provide approximately \$1,670,000, representing the first 20% of our partnership contribution, within ninety days of the Chinese government issuing their final approval of our project, which we sometime in the third quarter of fiscal 2009. The remaining portion of our funding for the joint venture will be due within twenty-four months of our receipt of the final government approval. Accordingly, we estimate we need to raise \$5,000,000 for the balance of 2009, and \$13,400,000 for 2010 in order to meet our funding commitments and continue operations. At September 30, 2009, we had total liabilities of \$3,411,592 and cash of only \$696. If we cannot obtain adequate financing from new funding sources, we will be unable to continue operations or meet our contractual obligations.

Our internal controls and procedures are limited which may result in a error or misstatement in our published financial information and which might prevent individuals and entities from providing us with necessary capital thus jeopardizing our business plans and operations.

Due to our limited internal resources and lack of ability to have multiple levels of transaction review our management has not been able to conclude that our internal controls and procedures are effective as far as our ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by us. In order to address this potential weakness, we must have sufficient resources to hire additional personnel so that transactions are not carried

out by the same people without review or oversight. Until we can increase our available operating capital and expand our limited operations, we will be unable to retain the necessary personnel or put into place additional controls and procedures such as additional review and approval procedures. Until we are able to do so, therefore, there is a greater risk that we will fail to detect and correct an error or misstatement in our financial reporting, thus making our reports potentially less reliable and hurting our ability to obtain financing.

Our use of equity as an alternative to cash compensation may cause excessive dilution for our current shareholders.

Due to shortage of operating funds and low liquidity, we have issued shares and warrants as compensation for services, including board and officer compensation as well as compensation for outside consultants. This form of compensation has enabled us to obtain services that would not otherwise have been available to us but it has resulted in dilution to our shareholders. Unless we are able to obtain adequate financing in the immediate future, we may be forced to continue to obtain services through the issuance of shares and warrants, resulting in additional dilution to shareholders and potentially adversely affecting any return on investment

We need immediate financing to meet our current obligations for facilities construction.

On December 2, 2008, we entered into a Cooperative Joint Venture agreement with the Sino-Mongolian International Railroad Systems Co., Ltd. The joint venture agreement will provide for the deployment of our technology into Inner Mongolia to form the foundation for a coal-to-fuel project that will eventually scale to 80 million short tons per year.

To meet our obligations under the JV agreement, upon completion of a feasibility study, the award of the JV license and registration and final Chinese government approval of the project, we are required to obtain substantial amounts of financing (\$1,670,000 for our initial registered capital contribution, with a balance of \$6,630,000 payable after 24 months from the final Chinese government approval). We do not have such financing in place or available to us. Inability to construct the facility or to finance the construction thereof on acceptable terms, will adversely affect our financial condition.

Construction of future facilities will require substantial lead time and significant additional financing.

We do not have any definitive contracts to construct future facilities. To the extent that we have secured joint venture or partnership agreements and identified appropriate sites for future facilities or agreed with utilities or other businesses to construct such facilities, we are required to begin a lengthy permitting and construction process. We estimate that it could take at least six months or longer to obtain necessary permits and approvals and that, depending on local circumstances, the required time could be much longer. Thereafter, construction of a facility with a final capacity of approximately 80 million tons of processed coal per year will take an estimated period of 10 years. For plant construction, we could expect to incur construction expenses well in advance of any revenues and would be required to secure relatively long term financing for such construction, which financing may not be available to us.

Any negative results from the continuing evaluation of our technology or processed coal produced at future facility sites could have a material adverse effect on the marketability of our technology and future prospects.

We are continuing to evaluate the attributes of coal processed using our technology on a laboratory scale. We do not know if these evaluations will result in positive findings concerning the moisture content, heat value, emission-levels, burn qualities or other aspects of our processed coal. Furthermore, even if current evaluations indicate that our processed coal performs to design specifications, we do not know if later tests or larger scale processing will confirm these current results or that the processed coal will be readily accepted by the market. The process of introducing our

technology into the market may be further delayed if these test results are negative or if potential licensees conduct their own tests of the processed coal to determine whether it meets their individual requirements and the results are not acceptable. We have conducted numerous tests of our technology using a variety of feed stocks in our laboratories. The ability to use feed stocks from other locations in the United States or overseas will depend on the results of future tests on different types of coal. If these tests limit the range of viable low-grade coal feed stocks for use in our process, site locations for future plants may be limited and the commercial appeal of the process may be less than anticipated. If this continuing process of evaluation and market introduction results in negative findings concerning our process, it could have a material adverse effect on the marketability of our technology and on our financial condition, results of operations and future prospects.

Due to the uncertain commercial acceptance of coal processed using our technology we may not be able to realize significant licensing revenues.

While we believe that a commercial market is developing both domestically and internationally for cleaner coal products such as coal processed using our technology, we may face the following risks due to the developing market for cleaner coal technology:

- limited pricing information;
- changes in the price differential between low- and high-Btu coal;
- unknown costs and methods of transportation to bring processed coal to market;
- alternative fuel supplies available at a lower price;
- the cost and availability of emissions-reducing equipment or competing technologies; and
- a decline in energy prices which could make processed coal less price competitive.

If we are unable to develop markets for our processed coal, our ability to generate revenues and profits will be negatively impacted.

If we are unable to successfully construct and commercialize production plants, our ability to generate profits from our technology will be impaired.

Our future success depends on our ability to secure partners to locate, develop and construct future commercial production plants and operate them at a profit. A number of different variables, risks and uncertainties affect such commercialization including:

-

the complex, lengthy and costly regulatory permit and approval process;

-

local opposition to development of projects, which can increase cost and delay timelines;

-

increases in construction costs such as for contractors, workers and raw materials;

-

transportation costs and availability of transportation;

-

the inability to acquire adequate amounts of low rank feedstock coal at forecasted prices to meet projected goals;

-

engineering, operational and technical difficulties; and

-

possible price fluctuations of low-Btu coal which could impact profitability.

If we are unable to successfully address these risks, our results from operations, financial condition and cash flows may be adversely affected.

Future changes in the law may adversely affect our ability to sell our products and services.

A significant factor in expanding the potential U.S. market for coal processed using our technology is the numerous federal, state and local environmental regulations, which provide various air emission requirements for power generating facilities and industrial coal users. We believe that the use of clean-burning fuel technologies such as ours will help utility companies comply with the air emission regulations and limitations. However, we are unable to predict future regulatory changes and their impact on the demand for our technology. While more stringent laws and regulations, including mercury emission standards, limits on sulfur dioxide emissions and nitrogen oxide emissions, may increase demand for our technology, such regulations may result in reduced coal use and increased reliance on alternative fuel sources. Similarly, amendments to the numerous federal and state environmental regulations that relax emission limitations would have a material adverse effect on our prospects.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

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Between January and September 2009, we issued a total of 5,151,516 common shares to our CEO, Douglas Hague, of which 5,134,850 was recorded in 2008. The balance of 16,666 shares were issued in the first quarter of 2009 as part of his compensation package

The above shares were issued in reliance on the exemption from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended, and the regulations promulgated thereunder. The transactions were issuances for services performed, the transactions were all privately negotiated and none involved any kind of public solicitation.

.ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

Subsequent Events.

Breach of Contract Lawsuit.

On October 21, 2009, the Company received a summons advising that a lawsuit has been filed for breach of contract. The lawsuit arises from an unauthorized Letter of Agreement signed in November 2008 between a public relations firm and a large shareholder who negotiated and signed the agreement as an officer of a separate company however the suit included the Company. It is the Company's position that it has no liability associated with this agreement, and will be exonerated.

Restructuring of Consulting Agreement.

The Company has cancelled its verbal consulting agreement with Larry Hunt. All future consulting engagements conducted on behalf of the Company must be accompanied by an itemized expense and time report detailing the specific tasks performed.

ITEM 6. EXHIBITS

Exhibit 31 - CERTIFICATION OF PRINCIPAL EXECUTIVE AND FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002.

Exhibit 32 - CERTIFICATION OF PRINCIPAL EXECUTIVE AND FINANCIAL OFFICER PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002.

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.

Dated: November 20, 2009

/s/ Douglas Hague

Douglas Hague

President, CEO, and Acting Chief Financial Officer