

Edgar Filing: Sino Clean Energy Inc - Form 10-Q

Sino Clean Energy Inc
Form 10-Q
November 16, 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

Or

Transition Report Pursuant To Section 13 Or 15(d) Of The Securities Exchange Act Of 1934

For the transition period from _____ to _____

Commission File Number: 000-51753

SINO CLEAN ENERGY INC.
(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction of incorporation of
origination)

75-2882833
(I.R.S. Employer Identification Number)

Room 1605, Suite B, Zhengxin Building
No. 5 Gaoxin 1st Road, Gao Xin District
Xi'an, Shaanxi Province
People's Republic of China
(Address of principal executive offices)

N/A
(Zip code)

(8629) 8406-7376
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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

Edgar Filing: Sino Clean Energy Inc - Form 10-Q

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each issuer's classes of common stock, as of the latest practicable date:
101,261,786 issued and outstanding as of October 28, 2009.

Transitional Small Business Disclosure Form (Check one): Yes No

TABLE OF CONTENTS
 QUARTERLY REPORT ON FORM 10-Q
 FOR NINE MONTHS ENDED SEPTEMBER 30, 2009

| | Page |
|---|------|
| PART I FINANCIAL INFORMATION | |
| Item 1. Financial Statements (unaudited) | 4 |
| Condensed Consolidated Balance Sheets | 4 |
| Condensed Consolidated Statements of Operations and Other Comprehensive Income (Loss) | 6 |
| Condensed Consolidated Statements of Shareholders' Equity (Deficiency) | 7 |
| Condensed Consolidated Statements of Cash Flows | 8 |
| Notes to the Condensed Consolidated Financial Statements | 10 |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 20 |
| Item 3. Quantitative and Qualitative Disclosures about Market Risk | 26 |
| Item 4. Controls and Procedures | 26 |
| PART II OTHER INFORMATION | |
| Item 1. Legal Proceedings | 27 |
| Item 1A. Risk Factors | 27 |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds | 38 |
| Item 3. Defaults Upon Senior Securities | 38 |
| Item 4. Submission of Matters to a Vote of Security Holders | 38 |
| Item 5. Other Information | 38 |
| Item 6. Exhibits | 39 |
| Signatures | 42 |

CAUTION REGARDING FORWARD-LOOKING INFORMATION

All statements contained in this Quarterly Report on Form 10-Q (“Form 10-Q”) for Sino Clean Energy Inc., other than statements of historical facts, that address future activities, events or developments are forward-looking statements, including, but not limited to, statements containing the words “believe,” “anticipate,” “expect” and words of similar import. These statements are based on certain assumptions and analyses made by us in light of our experience and our assessment of historical trends, current conditions and expected future developments as well as other factors we believe are appropriate under the circumstances. However, whether actual results will conform to the expectations and predictions of management is subject to a number of risks and uncertainties that may cause actual results to differ materially.

Such risks include, among others, the following: national and local general economic and market conditions; our ability to sustain, manage or forecast our growth; raw material costs and availability; new product development and introduction; existing government regulations and changes in, or the failure to comply with, government regulations; adverse publicity; competition; the loss of significant customers or suppliers; fluctuations and difficulty in forecasting operating results; changes in business strategy or development plans; business disruptions; the ability to attract and retain qualified personnel; the ability to protect technology; and other factors referenced in this and previous filings.

Consequently, all of the forward-looking statements made in this Form 10-Q are qualified by these cautionary statements and there can be no assurance that the actual results anticipated by management will be realized or, even if substantially realized, that they will have the expected consequences to or effects on our business operations. As used in this Form 10-Q, unless the context requires otherwise, “we” or “us” or “Registrant” or the “Company” means Sino Clean Energy Inc. and its subsidiaries.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Sino Clean Energy Inc. and Subsidiaries
Condensed Consolidated Balance Sheets

| | September 30, 2009 (Unaudited) | December 31, 2008 |
|--|--------------------------------------|----------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 13,970,487 | \$ 3,914,306 |
| Accounts receivable, net | 2,462,248 | 899,629 |
| Inventories | 480,173 | 45,068 |
| Prepaid inventories | 4,164,559 | 1,996,584 |
| Prepaid expenses | 59,767 | 86,958 |
| Refundable advance | - | 731,861 |
| Government grant receivable | - | 146,314 |
| Other receivables | 24,798 | 16,986 |
| Loans receivable | 543,048 | - |
| Land use right - current portion | 38,735 | 38,703 |
| Total current assets | 21,743,815 | 7,876,409 |
| Property, plant and equipment, net of accumulated depreciation and amortization of \$1,561,097 and \$491,247, respectively | | |
| | 8,362,457 | 9,394,416 |
| Land use right - non current portion | 1,776,705 | 1,804,277 |
| Deposits | 4,728,203 | 994,395 |
| Goodwill | 762,018 | 762,018 |
| Deferred debt issuance costs, net of accumulated amortization of \$114,233 at December 31, 2008 | - | 274,278 |
| Total assets | \$ 37,373,198 | \$ 21,105,793 |

(continued)

Sino Clean Energy Inc. and Subsidiaries
Condensed Consolidated Balance Sheets (continued)

| | September 30, 2009 (Unaudited) | December 31, 2008 |
|---|--------------------------------------|----------------------|
| LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY) | | |
| Current liabilities | | |
| Convertible notes, current position, net | \$ - | \$ 383,490 |
| Accounts payable and accrued expenses | 945,747 | 1,004,999 |
| Income and other taxes payable | 789,824 | 305,903 |
| Due to directors | 70,229 | 465,049 |
| Total current liabilities | 1,805,800 | 2,159,441 |
| Convertible notes, less current position, net (includes \$151,233, net amount of related party convertible notes) | 2,921,819 | - |
| Fair value of derivative liabilities | 44,299,127 | - |
| Total liabilities | 49,026,746 | 2,159,441 |
| Commitments and Contingencies | | |
| Shareholders' Equity (Deficiency) | | |
| Preferred stock, \$0.001 par value, 50,000,000 shares authorized, none issued and outstanding | - | - |
| Common stock, \$0.001 par value, 300,000,000 shares authorized, 101,261,786 and 92,181,750 issued and outstanding as of September 30, 2009 and December 31, 2008 respectively | 101,262 | 92,182 |
| Additional paid-in capital | 14,137,202 | 12,696,549 |
| Retained earnings (accumulated deficit) | (28,375,818) | 3,686,087 |
| Statutory reserves | 348,309 | 348,309 |
| Accumulated other comprehensive income | 2,135,497 | 2,123,225 |
| Total shareholders' equity (deficiency) | (11,653,548) | 18,946,352 |
| Total liabilities and shareholders' equity (deficiency) | \$ 37,373,198 | \$ 21,105,793 |

See accompanying notes to condensed consolidated financial statements.

Sino Clean Energy, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations and Other Comprehensive Income (Loss)
(Unaudited)

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|-------------------------------------|--------------|------------------------------------|--------------|
| | 2009 | 2008 | 2009 | 2008 |
| Revenue | \$ 10,757,826 | \$ 3,419,941 | \$ 26,659,312 | \$ 9,156,293 |
| Cost of goods sold | (6,812,469) | (2,297,227) | (17,695,505) | (6,227,606) |
| Gross profit | 3,945,357 | 1,122,714 | 8,963,807 | 2,928,687 |
| Selling, general and administrative expenses | 888,249 | 208,021 | 1,875,380 | 598,590 |
| Income from operations | 3,057,108 | 914,693 | 7,088,427 | 2,330,097 |
| Other income (expense) | | | | |
| Interest expense | (3,149,499) | - | (4,231,344) | - |
| Expense related to escrow shares | (1,054,548) | - | (1,294,881) | - |
| Commission income | 131,970 | 80,072 | 323,261 | 224,947 |
| Rental income, net | - | 230 | - | 79,843 |
| Interest income | 11,708 | 8,026 | 22,979 | 19,537 |
| Extinguishment of derivative liabilities | 2,381,333 | - | 3,370,593 | - |
| Change in fair value of derivative liabilities | (7,035,248) | - | (8,236,238) | - |
| Cost of private placement | (24,794,842) | - | (24,794,842) | - |
| Sundry income | - | 78 | - | 26,921 |
| Gain on disposal of property | - | 95 | - | 33,095 |
| Government grant | - | 141,614 | - | 141,614 |
| Total other income (expense) | (33,509,126) | 230,115 | (34,840,472) | 525,957 |
| Income (loss) before income taxes and non-controlling interest | (30,452,018) | 1,144,808 | (27,752,045) | 2,856,054 |
| Provision for income taxes | 463,050 | 71 | 1,055,718 | 24,779 |
| Net income (loss) | (30,915,068) | 1,144,737 | (28,807,763) | 2,831,275 |
| Net Income attributable to non-controlling interest | - | - | - | (351,149) |
| Net Income (loss) attributable to Sino Clean Energy, Inc. | (30,915,068) | 1,144,737 | (28,807,763) | 2,480,126 |
| Other comprehensive income | 3,578 | 124,319 | 12,932 | 934,996 |

Edgar Filing: Sino Clean Energy Inc - Form 10-Q

Foreign currency translation
adjustment

| | | | | | | | | |
|-----------------------------|----|--------------|----|-----------|----|--------------|----|-----------|
| Comprehensive income (loss) | \$ | (30,911,490) | \$ | 1,269,056 | \$ | (28,794,831) | \$ | 3,415,122 |
|-----------------------------|----|--------------|----|-----------|----|--------------|----|-----------|

Weight average number of shares

| | | | | |
|-----------|-------------|------------|------------|------------|
| - Basic | 100,419,101 | 92,181,750 | 96,091,295 | 87,181,750 |
| - Diluted | 100,419,101 | 92,734,390 | 96,091,295 | 87,365,963 |

(Loss) income per common share

| | | | | | | | | |
|-----------|----|--------|----|------|----|--------|----|------|
| - Basic | \$ | (0.31) | \$ | 0.01 | \$ | (0.30) | \$ | 0.03 |
| - Diluted | \$ | (0.31) | \$ | 0.01 | \$ | (0.30) | \$ | 0.03 |

See accompanying notes to condensed consolidated financial statements

Sino-Clean Energy, Inc. and Subsidiaries
Condensed Consolidated Statements of Changes in Shareholders' Equity (Deficiency)
For the nine months ended September 30, 2009
(Unaudited)

| | Common stock Shares | | Additional paid-in capital | Statutory reserves | Retained Earnings (accumulated deficit) | Accumulated other comprehensive income | Total |
|--|------------------------|------------|----------------------------------|-----------------------|--|---|-----------------|
| Balance, December 31, 2008, as previously reported | 92,181,750 | \$ 92,182 | \$ 12,696,549 | \$ 348,309 | \$ 3,686,087 | \$ 2,123,225 | \$ 18,946,352 |
| Cumulative effect of change in accounting principle relating to reclassification of warrants and conversion feature to derivative liability | - | - | (1,335,650) | - | (3,254,142) | - | (4,589,792) |
| Balance, January 1, 2009, as adjusted | 92,181,750 | 92,182 | 11,360,899 | 348,309 | 431,945 | 2,123,225 | 14,356,560 |
| Fair value of shares issued for services | 2,333,000 | 2,333 | 452,602 | - | - | - | 454,935 |
| Common stock issued upon conversion of convertible notes and accrued interest | 6,747,036 | 6,747 | 1,028,820 | - | - | - | 1,035,567 |
| Expense related to escrow shares | - | - | 1,294,881 | - | - | - | 1,294,881 |
| Foreign currency translation gain | - | - | - | - | - | 12,272 | 12,272 |
| Net loss | - | - | - | - | (28,807,763) | - | (28,807,763) |
| Balance, September 30, | 101,261,786 | \$ 101,262 | \$ 14,137,202 | \$ 348,309 | \$ (28,375,818) | \$ 2,135,497 | \$ (11,653,548) |

2009

See accompanying notes to condensed consolidated financial statements.

7

Sino Clean Energy, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Unaudited)

| | Nine months ended September 30, | |
|---|---------------------------------|--------------|
| | 2009 | 2008 |
| Cash flows from operating activities: | | |
| Net income (loss) attributable to Sino Clean Energy, Inc. | \$ (28,807,763) | \$ 2,480,126 |
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Gain attributable to noncontrolling interest | - | 351,149 |
| Depreciation and amortization | 1,069,850 | 175,399 |
| Amortization of land use right | 29,064 | 28,031 |
| Gain on disposal of property | - | (33,095) |
| Amortization of deferred debt issuance costs | 274,278 | 8,399 |
| Amortization of discount on convertible notes | 3,873,979 | 35,127 |
| Expense related to escrow shares | 1,294,881 | - |
| Fair value of shares issued for services | 454,935 | - |
| Cost of private placement | 24,794,842 | - |
| Change in fair value of derivative liabilities | 8,236,238 | - |
| Extinguishment of derivative liability | (3,370,593) | - |
| Change in operating assets and liabilities | | |
| Accounts receivable | (1,563,019) | (4,923,476) |
| Inventories | (435,105) | (240,670) |
| Prepaid inventories | (2,167,975) | 1,605,350 |
| Prepaid expenses | 27,191 | 127,689 |
| Refundable advance | 731,861 | - |
| Government grant receivable | 146,314 | 411,000 |
| Other receivables | (7,812) | (14,227) |
| Accounts payable and accrued expenses | 37,982 | (196,665) |
| Income and other taxes payables | 483,921 | 10,143 |
| Assets on discontinued operation | | |
| Other receivables | - | 141,795 |
| Net cash provided by (used in) operating activities | 5,103,069 | (33,925) |
| Cash flows from investing activities: | | |
| Deposits | (3,733,408) | 188,332 |
| Loans receivable | (540,365) | - |
| Purchase of property, plant and equipment | (29,767) | (2,747,052) |
| Proceeds from disposal of property | - | 1,025,437 |
| Net cash provided by (used in) investing activities | (4,303,540) | (1,533,283) |
| Cash flows from financing activities: | | |
| Repayment of amount due to directors | (394,820) | (7,427) |
| Proceeds from issuance of convertible debentures | 11,592,000 | 1,148,491 |
| Cost of private placement paid in cash | (1,543,152) | - |
| Redemption of convertible debenture | (400,000) | - |
| Obligations under capital leases | - | (27,318) |
| Net cash provided by financing activities | 9,254,028 | 1,113,746 |

(continued)

Sino Clean Energy, Inc. and Subsidiaries
 Condensed Consolidated Statements of Cash Flows (continued)
 (Unaudited)

| | Nine months ended September 30, | |
|---|---------------------------------|--------------|
| | 2009 | 2008 |
| Effect of foreign currency translation | \$ 2,624 | \$ 155,329 |
| Net increase (decrease) in cash and cash equivalents | 10,056,181 | (298,133) |
| Cash and cash equivalents, beginning of period | 3,914,306 | 2,832,132 |
| Cash and cash equivalents, end of period | \$ 13,970,487 | \$ 2,533,999 |
| Supplemental noncash investing and financing activities | | |
| Interest paid | \$ 364,843 | \$ - |
| Income taxes paid | \$ 672,639 | \$ - |
| Supplemental noncash investment and financing activities | | |
| Issuance of shares upon conversion of convertible notes and accrued interest | \$ 1,035,567 | \$ - |
| Allocation of derivative liability to note discount | \$ 11,592,000 | \$ - |
| Issuance of shares in exchange of equity interest | \$ - | \$ 1,500,000 |
| Cumulative effect of change in accounting principle upon adoption of new accounting pronouncement on January 1, 2009, reclassification of warrants and conversion feature to derivative liability | \$ 4,589,792 | \$ - |

See accompanying notes to the consolidated financial statements.

Sino Clean Energy, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
For the Three and Nine Months Ended September 30, 2009
(Unaudited)

1. ORGANIZATION AND BUSINESS ACTIVITIES

Sino Clean Energy, Inc. (“Sino Clean” or the “Company”) engages in research, development, production, marketing and sales of coal-water mixture (“CWM”), a coal-based fuel substitute for coal, oil and gas. All current operations of the Company are in Shaanxi Province, People’s Republic of China (the “PRC” or “China”). The Company was originally incorporated in Texas as “Discount Mortgage Services, Inc.” on July 11, 2000. In November 2001, the Company changed its name to Endo Networks, Inc. and was redomiciled to the State of Nevada in December 2002. On January 4, 2007, the Company changed its name to “China West Coal Energy Inc.” Further on August 15, 2007, the Company changed its name to “Sino Clean Energy Inc.” The Company’s fiscal year end is December 31.

The Company’s operations are carried out by Shaanxi Suo’ang Biological Science & Technology Co., Ltd. (“Suo’ang BST”), a PRC company which the Company controls, and Shaanxi Suo’ang New Energy Enterprise Co., Ltd. (“Suo’ang New Energy”), a PRC company that was originally formed with 80% of the registered capital, representing 80% of its equity interests, from Suo’ang BST, and the remaining 20% from a member of the Company’s board of directors. On June 30, 2008, the Company issued 7,500,000 common shares to the director in exchange for transferring his 20% equity interests of Suo’ang Energy to Hangson Limited (“Hangson”), a British Virgin Island company and a wholly-owned subsidiary of the Company. On September 27, 2009, the Tongchuan Bureau of Commerce approved the transfer of all of Suo’ang New Energy’s equity interests to Tongchuan Suoke Clean Energy Co., Ltd. (“Suoke New Energy”), a PRC limited liability company wholly-owned by Wiscon Holdings Limited (“Wiscon”), a Hong Kong company wholly-owned by Hangson. Registration of the approval with the Tongchuan municipal government, which is necessary before Suo’ang New Energy can be deemed Suoke New Energy’s wholly-owned subsidiary under applicable PRC law, is still pending.

The Company controls Suo’ang BST through a series of contractual arrangements originally between Suo’ang BST and Hangson. On June 30, 2009, the Company entered into a series of agreements transferring all of the rights and obligations of Hangson under the contractual arrangements to Suoke Clean Energy. As these contractual arrangements obligates Suoke Clean Energy to absorb a majority of the risk of loss from the activities of Suo’ang BST and enables Suoke Clean Energy to receive a majority of its expected residual returns, the Company accounts for Suo’ang BST as a variable interest entity (“VIE”) under authoritative guidance of the Financial Accounting Standards Board (“FASB”) on consolidation of variable interest entities. Accordingly, the Company consolidates the results, assets and liabilities of Suo’ang BST.

Wiscon was incorporated on September 4, 2006, and Hangson acquired all of its issued and outstanding equity interest on June 30, 2009. Suoke Clean Energy was established by Wiscon on June 25, 2009.

Hereinafter, Sino Clean, Hangson, Wiscon, Suoke Clean Energy, Suo’ang BST and Suo’ang New Energy are sometimes collectively referred to as the “Company.”

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Change in accounting principle

On January 1, 2009, the Company adopted authoritative guidance issued by the FASB which affects the accounting for warrants and many convertible instruments. The Company determined the warrants and convertible debt issued in

2008 and 2009 contained re-set provisions that preclude them from being indexed to the Company's own stock. As a result, the warrants and conversion feature previously classified in equity were reclassified to derivative liabilities (see Note 6).

Basis of presentation and consolidation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and pursuant to the rules and regulations of the United States Securities and Exchange Commission ("SEC"). 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 adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. The financial statements contained herein should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 2008 Annual Report on Form 10-K/A for the fiscal year ended December 31, 2008, filed with the SEC. The results of operations for interim periods are not necessarily indicative of the results expected for a full year or for any future period.

The consolidated financial statements include the financial statements of the Company, its wholly owned subsidiaries Hangson, Wiscon, Suoke Clean Energy and Suo'ang New Energy, and its VIE Suo'ang BST. Intercompany accounts and transactions have been eliminated in consolidation.

Use of estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Because of the use of estimates inherent in the financial reporting process, actual results could differ from those estimates.

Revenue recognition

Revenues of the Company are from sales of CWM.

Sales are recognized when the following four revenue criteria are met: persuasive evidence of an arrangement exists, delivery has occurred, the selling price is fixed or determinable, and collectibility is reasonably assured. Revenues are presented net of value added tax ("VAT"). In our revenue arrangements, physical delivery is the point in time when customer acceptance occurs since title and risk of loss are transferred to the customer. No return allowance is made as products are normally not returnable upon acceptance by the customers.

Fair value of financial instruments

Effective January 1, 2008, fair value measurements are determined by the Company's adoption of authoritative guidance issued by the FASB, with the exception of the application of the statement to non-recurring, non-financial assets and liabilities as permitted. The adoption of the authoritative guidance did not have a material impact on the Company's fair value measurements. Fair value is defined in the authoritative guidance as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy was established, which prioritizes the inputs used in measuring fair value into three broad levels as follows:

Level 1—Quoted prices in active markets for identical assets or liabilities.

Level 2—Inputs, other than the quoted prices in active markets, are observable either directly or indirectly.

Level 3—Unobservable inputs based on the Company's assumptions.

The Company is required to use of observable market data if such data is available without undue cost and effort.

The following table presents certain investments and liabilities of the Company's financial assets measured and recorded at fair value on the Company's condensed consolidated balance sheets on a recurring basis and their level within the fair value hierarchy as of September 30, 2009 (unaudited):

| | Level 1 | Level 2 | Level 3 | Total |
|--|---------|---------|---------------|---------------|
| Fair value of warrants and conversion feature derivative liability | - | - | \$ 44,299,127 | \$ 44,299,127 |
| | - | - | \$ 44,299,127 | \$ 44,299,127 |

See Notes 5 and 6 for more information on these financial instruments.

11

Derivative financial instruments

The Company does not use derivative instruments to hedge exposures to cash flow, market or foreign currency risks. The Company 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 in the condensed consolidated statements of operations. For stock-based derivative financial instruments, the Company uses both the Black-Scholes-Merton and Binomial option pricing models to value the derivative instruments at inception and on subsequent valuation dates. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is evaluated 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.

Stock based compensation

The Company periodically issues stock options and warrants to employees and non-employees in capital raising transactions, for services and for financing costs. Stock-based compensation is measured at the grant date, based on the fair value of the award, and is recognized as expense over the requisite service period. Options vest and expire according to terms established at the grant date.

Income (loss) per common share

Basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period. The diluted earnings per share calculation give effect to all potentially dilutive common shares outstanding during the period using the treasury stock method for warrants and options and the if-converted method for convertible debentures.

As of September 30, 2009, common stock equivalents were composed of options convertible into 100,000 shares of the Company's common stock, warrants convertible into 44,037,433 shares of the Company's common stock, and debentures convertible into 61,010,526 shares of the Company's common stock. For the three and nine months ended September 30, 2009, the conversion of the options, debentures, and warrants has been excluded from the calculation of dilutive earnings per share, as the effects of such conversion would be anti-dilutive. As of September 30, 2008, common stock equivalents were composed of warrants convertible into 9,261,434 shares of the Company's common stock and debentures convertible into 8,904,333 shares of the Company's common stock.

The following is a reconciliation of the numerator and denominator used in the calculation of basic and diluted earnings per share.

| | Three months ended September 30 | | Nine months ended September 30 | |
|--|------------------------------------|--------------|-----------------------------------|--------------|
| | 2009 | 2008 | 2009 | 2008 |
| Numerator | | | | |
| Net income (loss) | \$ (30,915,068) | \$ 1,144,737 | \$ (28,807,763) | \$ 2,480,126 |
| Denominator | | | | |
| Weighted average shares outstanding-basic | 100,419,101 | 92,181,750 | 96,091,295 | 87,181,750 |
| Effect of dilutive instruments: | | | | |
| Warrants and options | - | 552,640 | - | 184,213 |

Edgar Filing: Sino Clean Energy Inc - Form 10-Q

| | | | | |
|---|-------------|------------|------------|------------|
| Weighted average shares outstanding-diluted | 100,419,101 | 92,734,390 | 96,091,295 | 87,365,963 |
|---|-------------|------------|------------|------------|

Foreign currency translation

The accompanying consolidated financial statements are presented in United States dollars. The functional currency of the Company is the Renminbi (RMB). Capital accounts of the consolidated financial statements are translated into United States dollars from RMB at their historical exchange rates when the capital transactions occurred. Assets and liabilities are translated at the exchange rate as of balance sheet date. Income and expenditures are translated at the average exchange rate of the period.

| | September 30, 2009 | December 31, 2008 | September 30, 2008 |
|---|-----------------------|----------------------|-----------------------|
| Period end RMB : US\$ exchange rate | 6.8290 | 6.8346 | 6.8183 |
| Average period RMB : US\$ exchange rate | 6.8329 | 7.0671 | 7.0615 |

The RMB is not freely convertible into foreign currency and all foreign exchange transactions must take place through authorized institutions. No representation is made that the RMB amounts could have been, or could be, converted into US dollars at the rates used in translation.

Reclassifications

In presenting the Company's consolidated balance sheet at December 31, 2008, and statement of cash flows for the nine months ended September 30, 2008, the Company presented \$994,395 of prepayments and other deposits as current assets and their cash flows of \$188,332 as operating cash flows. In presenting the Company's consolidated balance sheet at September 30, 2009, and statement of cash flows for the nine month ended September 30, 2009, the Company has reclassified the prepayments and other deposits as long term assets and their cash flows as investing cash flows.

In presenting the Company's consolidated balance sheet at December 31, 2008, the Company presented \$731,861 refundable advance receivable as a prepayment and other deposit. In presenting the Company's consolidated balance sheet at September 30, 2009, the Company has reclassified the balance of \$731,861 to refundable advance.

Recently issued accounting pronouncements

In June 2009, the FASB issued authoritative guidance on accounting standards codification and the hierarchy of generally accepted accounting principles effective for interim and annual reporting periods ending after September 15, 2009. The FASB accounting standards codification ("ASC, "Codification") has become the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in accordance with GAAP. All existing accounting standard documents are superseded by the Codification and any accounting literature not included in the Codification will not be authoritative. However, rules and interpretive releases of the SEC issued under the authority of federal securities laws will continue to be sources of authoritative GAAP for SEC registrants. Beginning with the quarter ending September 30, 2009, all references made by the Company to GAAP in its condensed consolidated financial statements use the Codification numbering system. The Codification does not change or alter existing GAAP and, therefore, it does not have an impact on our financial position, results of operations and cash flows.

On July 1, 2009, the Company adopted authoritative guidance issued by the FASB on business combinations. The guidance retains the fundamental requirements that the acquisition method of accounting (previously referred to as the purchase method of accounting) be used for all business combinations, but requires a number of changes, including changes in the way assets and liabilities are recognized and measured as a result of business combinations. It also requires the capitalization of in-process research and development at fair value and requires the expensing of acquisition-related costs as incurred. We will apply this guidance to business combinations completed after July 1, 2009. Adoption of the new guidance did not have a material impact on our financial statements

On July 1, 2009, the Company adopted authoritative guidance issued by the FASB on accounting and reporting for non-controlling interests. Non-controlling interests are to be reported as a component of equity separate from the parent's equity, and purchases or sales of equity interests that do not result in a change in control are to be accounted for as equity transactions. In addition, net income attributable to a non-controlling interest is to be included in net income and, upon a loss of control, the interest sold, as well as any interest retained, is to be recorded at fair value with any gain or loss recognized in net income. Adoption of the new guidance did not have a material impact on our financial statements.

On January 1, 2009, the Company adopted authoritative guidance issued by the FASB which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. This pronouncement requires enhanced disclosures concerning a company's treatment of costs

incurred to renew or extend the term of a recognized intangible asset. Although this may impact our reporting in future financial periods, we have determined that the standard did not have any impact on our historical consolidated financial statements at the time of adoption.

In June 2009, the FASB made an update to consolidation of variable interest entities. Among other things, the update replaces the calculation for determining which entities, if any, have a controlling financial interest in a variable interest entity (VIE) from a quantitative based risks and rewards calculation, to a qualitative approach that focuses on identifying which entities have the power to direct the activities that most significantly impact the VIE's economic performance and the obligation to absorb losses of the VIE or the right to receive benefits from the VIE. The update also requires ongoing assessments as to whether an entity is the primary beneficiary of a VIE (previously, reconsideration was only required upon the occurrence of specific events), modifies the presentation of consolidated VIE assets and liabilities, and requires additional disclosures about a company's involvement in VIEs. This update will be effective for fiscal years beginning after November 15, 2009. The Company does not currently believe that the adoption of this update will have any effect on its consolidated financial position and results of operations.

In October 2009, the FASB issued authoritative guidance on revenue recognition that will become effective for us beginning July 1, 2010, with earlier adoption permitted. Under the new guidance on arrangements that include software elements, tangible products that have software components that are essential to the functionality of the tangible product will no longer be within the scope of the software revenue recognition guidance, and software-enabled products will now be subject to other relevant revenue recognition guidance. Additionally, the FASB issued authoritative guidance on revenue arrangements with multiple deliverables that are outside the scope of the software revenue recognition guidance. Under the new guidance, when vendor specific objective evidence or third party evidence for deliverables in an arrangement cannot be determined, a best estimate of the selling price is required to separate deliverables and allocate arrangement consideration using the relative selling price method. The new guidance includes new disclosure requirements on how the application of the relative selling price method affects the timing and amount of revenue recognition. We believe the adoption of this new guidance will not have a material impact on our financial statements.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the AICPA, and the SEC did not or are not believed by management to have a material impact on the Company's present or future consolidated financial statements.

3. INVENTORIES

Inventories consist of the following at:

| | September 30, 2009 (unaudited) | December 31, 2008 |
|-------------------|--------------------------------------|----------------------|
| Raw materials | \$ 270,641 | \$ 18,290 |
| Packing materials | 2,483 | 2,193 |
| Finished goods | 207,049 | 24,585 |
| | \$ 480,173 | \$ 45,068 |

Prepaid Inventories

The Company's VIE, Suo'ang BST, has a contract with a coal mine to deliver coal for use in the production of coal-water mixture. At times, Suo'ang BST may make payments in advance of delivery and accounts for these prepayments as prepaid inventory. At September 30, 2009 and December 31, 2008, prepaid inventories totaled \$4,164,559 and \$1,996,584, respectively.

4. LOANS RECEIVABLE

Loans receivable of \$543,048 at September 30, 2009 includes:

On July 2, 2009, the Company made a loan for \$190,365. The loan was unsecured, bore interest at 12% per annum, and was due November 1, 2009. The loan was repaid on October 12, 2009.

On September 8, 2009, the Company made a loan for \$350,000. The loan was unsecured, bore interest at 12% per annum, and was due November 8, 2009. Accrued interest at September 30, 2009 is \$2,683. This loan was repaid on November 6, 2009.

5. CONVERTIBLE NOTES

Convertible notes consist of the following at:

Current liabilities:

| | September 30, 2009 (unaudited) | December 31, 2008 |
|----------------------------|--------------------------------------|----------------------|
| 18% convertible debentures | \$ - | \$ 1,335,650 |
| 10% convertible notes | 11,592,000 | - |
| Valuation discount | (8,670,181) | (952,160) |
| Convertible notes, net | 2,921,819 | 383,490 |
| Less current portion | - | (383,490) |
| Long term portion | \$ 2,921,819 | \$ - |

14

18% convertible debentures

On September 16, 2008 and September 19, 2008, the Company issued an aggregate of \$1,335,650 of 18% convertible debentures (the "Debentures") and issued warrants (the "Warrants") to purchase up to 8,904,334 shares of common stock of the Company in a private placement to six investors. The Debentures bore interest at 18% per annum, matured in one year, were unsecured, and were personally guaranteed by the Company's Chief Executive Officer. The holders of the Debentures had the right at any time to convert all or part of the outstanding principal amount of the Debentures and any accrued and unpaid interest into common shares of the Company at the then effective conversion price, initially set at \$0.15 per share.

During the second and third quarters of 2009, five investors converted \$935,650 principal balance of Debentures at the stated conversion price of \$0.15 per share plus accrued interest of \$76,405 into 6,747,036 shares of the Company's common stock. The Company paid off one investor with a \$400,000 principal balance which was not converted. The balance of the related derivative for the conversion feature and warrants was recorded as extinguishment of derivative.

The Warrants entitle the investors to purchase up to 8,904,334 shares of common stock (the "Warrant Shares") in the aggregate. The Warrants have an initial exercise price of \$0.15 per share, subject to adjustments and limited to no lower than \$0.05 per share. The Warrants are exercisable for three years from the date issued. 25% of the Warrant Shares vested immediately, and 5% of the Warrant Shares vest monthly beginning on October 31, 2008. The warrants vested in full upon the conversion or payment of the Debentures in the second and third quarters of 2009.

The 8,904,334 Warrants were valued at \$2,418,685 using the Black-Scholes option valuation model with the following assumptions: risk-free interest rate of 0.62% to 1.21%; dividend yield of 0%; volatility factors of 94.67% to 99.91%; and an expected life of three years (statutory term). The Company also determined that the Debentures contained a conversion feature of \$1,667,752. The value of the Debentures and conversion option are considered as debt discount. Total recorded debt discount cannot be greater than the face amount of the notes issued, and accordingly, the Company recorded a discount of \$1,335,650 which was being amortized over the life of the Debentures on the effective interest method. For the nine months periods ended September 30, 2009, \$753,025 of discount amortization is included in interest expense. The balance of the unamortized debt discount of \$199,135 at the date the related Notes were converted or paid off was recorded as additional interest expense. At September 30, 2009, the unamortized balance of the discount is zero. At September 30, 2008, there was no debt discount recorded.

The Company incurred cost of \$357,753 directly associated with the issuance of the Debentures. The Company also issued warrants to purchase 357,100 shares of common stock as finder's fee, exercisable for two years at \$0.25 per share, which vested immediately on the issuance date. The 357,100 warrants were valued at \$82,287 using the Black-Scholes option valuation model with the following assumptions: risk-free interest rate of 0.62% to 1.21%; dividend yield of 0%; volatility factors of 94.67% to 99.91%; and an expected life of two years (statutory term). The costs directly associated with the issuance of the Debentures and the fair value of the warrants issued for finder's fee total \$388,512 and were recorded by the Company as debt issuance costs. These costs were capitalized and were being amortized over the term of the Debentures. For the three and nine month periods ended September 30, 2009, amortization charged to interest expense was \$57,176 and \$274,278, respectively, and the unamortized balance at September 30, 2009 was zero.

Escrowed shares related to the Debentures

In connection with the issuance of the Debentures and Warrants, the Company's Chief Executive Officer entered into an escrow agreement pursuant to which he transferred 4,452,168 shares of the Company's common stock owned by him into an escrow account for the benefit of the investors as a guarantee of the Company meeting certain performance targets. Pursuant to the escrow agreement, the Chief Executive Officer agreed to transfer 50% of the escrowed shares to the holders of the Debentures if the Company does not meet its performance targets for the year

ended December 31, 2008. The remaining 50% of the escrowed shares will be transferred to the holders of the Debentures if the Company does not meet its performance targets for the year ended December 31, 2009. The performance target for 2008 was the achievement of net income and cash flow (as defined in the Debentures) of at least \$3,500,000. The performance target for the 2009 is the achievement of net income and cash flow (as defined in the Debentures) of at least \$6,000,000. The escrowed shares revert back to the Chief Executive Officer if the Company meets its performance targets.

The Company considered authoritative guidance in determining whether the escrow agreement represents a compensatory arrangement that is, in substance, a capital contribution of common shares by the Chief Executive Officer and then a share-based payment to him for services rendered. The agreement to release the shares from escrow upon the achievement of certain criteria was presumed to be a separate compensatory arrangement between the Company and the Chief Executive Officer. As such, the Company valued the escrowed shares as if the Chief Executive Officer had provided the Company an option to acquire these shares. The aggregate value of the 4,452,168 shares was valued at \$1,152,137 using the Black-Scholes option valuation model with the following assumptions: risk-free interest rate of 0.62% to 1.21%; dividend yield of 0%; volatility factors of 94.67% to 99.91%; and an expected life of 3 months (for 2008) and 15 months (for 2009). For the three and nine months ended September 30, 2009, the Company recognized \$240,333 and \$480,666 of expense related to the escrowed shares. At July 1, 2009, the 4,452,168 shares were released from escrow when the Debentures were converted or paid off, and the total value of the escrowed shares had been fully amortized.

10% senior secured convertible notes

On July 1, 2009 and July 20, 2009, the Company issued an aggregate of \$11,592,000 of 10% senior secured convertible notes (the "Notes") and issued warrants (the "Warrants") to purchase up to 30,505,263 shares of common stock of the Company in a private placement. The Notes bear interest at 10% per annum, mature in three year, are unsecured, and are personally guaranteed by the Company's Chief Executive Officer and certain shareholders. The holders of the Notes have the right at any time to convert all or part of the outstanding principal amount of the Notes and any accrued and unpaid interest into common shares of the Company at the then effective conversion price, initially set at \$0.19 per share (the "Conversion Price"). The Company's Chief Executive Officer purchased \$350,000 of the Notes issued on July 1, 2009, and \$250,000 of the Notes issued on July 20, 2009.

The initial conversion price will automatically adjust to 75% of the Conversion Price on January 1, 2010 if the Company does not achieve certain financial performance targets for the fiscal year ended December 31, 2009, and provided further that the Conversion Price will automatically adjust to 80% of the Conversion Price on January 1, 2011 if the Company does not achieve certain financial performance targets for the fiscal year ended December 31, 2010. Also, the Conversion Price is subject to a full ratchet anti-dilution adjustment in the event that the Company issues additional equity, equity linked securities or securities convertible into equity, at a purchase price less than the then applicable Conversion Price or the Exercise Price.

The Notes bear interest at 10% per year and mature on June 30, 2012 and July 16, 2012 (the "Maturity Date"). Interest is payable quarterly in cash on the first day of January, April, July and October of each year and on the Maturity Date, commencing October 1, 2009.

The Warrants entitle the investors to purchase up to 30,505,263 shares of common stock (the "Warrant Shares") in the aggregate. The Warrants have an initial exercise price of \$0.285 per share, subject to a full ratchet anti-dilution adjustment in the event that the Company issues additional equity, equity linked securities or securities convertible into equity, at a purchase price less than the then applicable Conversion Price or the Exercise Price.

Effective January 1, 2009, the Company adopted authoritative guidance issued by the FASB that indicates any adjustment to the fixed amount (either conversion price or number of shares) of the instrument (or embedded feature), regardless of the probability or whether or not within the issuers' control, means the instrument is not indexed to the issuers own stock. Accordingly, the embedded conversion feature of the notes and the conversion feature of the warrants resulted in a derivative liability being recorded by the Company when the Notes and Warrants were issued. The Company determined the conversion feature of the Notes was \$24,987,313 based on a binominal valuation. The Company determined the conversion feature of the 30,505,263 Warrants was \$8,479,263 using the Black-Scholes option valuation model with the following assumptions: risk-free interest rate of 1.5%; dividend yield of 0%; volatility factor of 149%; and an expected life of three years (statutory term), resulting in total derivative at

issuance of \$33,466,576. \$11,592,000 of this amount was allocated to debt discount (i.e. up to face amount of the Notes) and will be amortized over the term of the Notes. For the three and nine months period ended September 30, 2009, \$2,921,819 of discount amortization is included in interest expense. At September 30, 2009, the unamortized balance of the discount is \$8,670,181. The balance of the derivative of \$21,874,576 represents the excess of the fair value of the derivatives over cash received.

The Company incurred \$1,543,152 of costs directly associated with the issuance of the Notes and also issued 4,270,736 warrants valued at \$1,377,114 as finder's fees exercisable for three years at \$0.228 per share, which vested immediately on the issuance date. The 4,270,736 warrants were valued using the Black-Scholes option valuation model with the following assumptions: risk-free interest rate of 1.5%; dividend yield of 0%; volatility factor of 149%; and an expected life of three years (statutory term). The costs directly associated with the issuance of the Notes of \$1,543,152, plus the fair value of the warrants issued for finder's fee of \$1,377,114, plus the \$21,874,576 excess fair value of derivative over cash received, total \$24,794,842 and are recorded as cost of private placement in the accompanying statement of operations..

Escrow shares related to the Notes

In connection with the issuance of the Notes and Warrants, the Company's Chief Executive Officer and a director of the Company (collectively the "Pledgors") entered into a pledge agreement pursuant to which they transferred 28,744,299 shares of the Company's common stock owned by them into an escrow account for the benefit of the investors as a guarantee against an event of default (as defined in the Notes) by the Company. Pursuant to the pledge agreement, the Pledgors agreed to transfer all the escrowed shares to the holders of the Notes if the Company defaults on the Notes. The escrowed shares revert back to the Pledgors at the expiration of the Notes.

The Company considered authoritative guidance in determining whether the pledge agreement represents a compensatory arrangement that is, in substance, a capital contribution of common shares by the Chief Executive Officer and the director. The agreement to release the shares from escrow upon the achievement of certain criteria was presumed to be a separate compensatory arrangement between the Company and each of the Chief Executive Officer and the director. As such, the Company valued the escrowed shares as if the Chief Executive Officer and the director had provided the Company an option to acquire these shares. The aggregate value of the 28,744,299 shares was valued at \$10,776,405 using the Black-Scholes option valuation model with the following assumptions: risk-free interest rate of 1.5%; dividend yield of 0%; volatility factor of 147%; and an expected life of three years. For the three months ended September 30, 2009, the Company recognized \$814,215 of expense related to these escrow shares. As of September 30, 2009, the unamortized balance of escrow shares is \$9,962,190 and will be expensed as follows: \$898,035 for the three months ended December 31, 2009, \$3,592,135 and \$3,592,135 for the years ended December 31, 2010 and 2011, respectively, and \$1,879,885 for the year ended December 31, 2012.

6. DERIVATIVE LIABILITY

In June 2008, the FASB issued authoritative guidance on determining whether an instrument (or embedded feature) is indexed to an entity's own stock. Under the authoritative guidance, effective January 1, 2009, instruments which do not have fixed settlement provisions are deemed to be derivative instruments. The conversion feature of the Company's Debentures (described in Note 5), and the related warrants, do not have fixed settlement provisions because their conversion and exercise prices, respectively, may be lowered if the Company issues securities at lower prices in the future. The Company was required to include the reset provisions in order to protect the holders of the Debentures from the potential dilution associated with future financings. In accordance with the FASB authoritative guidance, the conversion feature of the Notes was separated from the host contract (i.e., the Notes) and recognized as a derivative instrument. Both the conversion feature of the Notes and the related warrants have been characterized as derivative liabilities to be re-measured at the end of every reporting period with the change in value reported in the statement of operations.

The derivative liabilities were valued using both the Black-Scholes-Merton and Binomial valuation techniques with the following assumptions:

| | September 30, 2009 | July 20, 2009 | July 1, 2009 |
|----------------------------|-----------------------|------------------|-----------------|
| Conversion feature: | | | |
| Risk-free interest rate | 1.5% | 1.5% | 1.5% |
| Expected volatility | 148.47% | 148.69% | 149.64% |
| Expected life (in years) | 2.75 years | 2.99 year | 3.0 year |
| Expected dividend yield | 0 | 0 | 0 |
| Warrants: | | | |
| Risk-free interest rate | 1.32% | 1.52% | 1.53% |
| Expected volatility | 148.47% | 148.69% | 149.64% |
| Expected life (in years) | 2.81 years | 3.0 years | 3.0 years |

Edgar Filing: Sino Clean Energy Inc - Form 10-Q

| | | | | | | |
|-------------------------|----|------------|----|------------|----|------------|
| Expected dividend yield | | 0 | 0 | 0 | | |
| Fair Value: | | | | | | |
| Conversion feature | \$ | 28,935,118 | \$ | 14,270,438 | \$ | 10,716,875 |
| Warrants | | 15,364,009 | | 5,091,320 | | 3,387,943 |
| | \$ | 44,299,127 | \$ | 19,361,758 | \$ | 14,104,818 |

17

Edgar Filing: Sino Clean Energy Inc - Form 10-Q

| | December 31, 2008 | September 16, 2008 and September 19, 2008 |
|----------------------------|----------------------|--|
| Conversion feature: | | |
| Risk-free interest rate | 0.33% | 1.61% |
| Expected volatility | 152.26% | 91.68% |
| Expected life (in years) | 0.7 year | 1.0 year |
| Expected dividend yield | 0 | 0 |
| Warrants: | | |
| Risk-free interest rate | 0.33% | 2.21% |
| Expected volatility | 152.26% | 91.68% |
| Expected life (in years) | 2.7 years | 3.0 years |
| Expected dividend yield | 0 | 0 |
| Fair Value: | | |
| Conversion feature | \$ 2,899,790 | \$ 2,878,739 |
| Warrants | \$ 1,690,002 | \$ 1,501,555 |
| | \$ 4,589,792 | \$ 4,380,294 |

The risk-free interest rate was based on rates established by the Federal Reserve Bank. The Company uses the volatility of five comparable guideline companies to estimate volatility for its common stock. The expected life of the conversion feature of the notes was based on the term of the notes and the expected life of the warrants was determined by the expiration date of the warrants. The expected dividend yield was based on the fact that the Company has not paid dividends to common shareholders in the past and does not expect to pay dividends to common shareholders in the future.

The FASB authoritative guidance was implemented in the first quarter of 2009 and is reported as a cumulative change in accounting principles. The cumulative effect on the accounting for the conversion feature of the Debentures and the related warrants at January 1, 2009 is as follows:

| | Additional Paid-in Capital | Retained Earnings | Derivative Liability |
|-------------------------------|-------------------------------|----------------------|-------------------------|
| Derivative Instrument: | | | |
| Conversion feature | \$ 1,335,650 | - | \$ 1,335,650 |
| Warrants | - | \$ 3,254,142 | \$ 3,254,142 |
| | \$ 1,335,650 | \$ 3,254,142 | \$ 4,589,792 |

The warrants were originally recorded at their relative fair value as an increase in additional paid-in capital. The change in the accumulated deficit includes gains resulting from decreases in the fair value of the derivative liabilities through December 31, 2008. The derivative liability amounts reflect the fair value of each derivative instrument as of the January 1, 2009 date of implementation.

As of September 30, 2009, the derivative liability was \$44,299,127. For the three and nine months ended September 30, 2009, the Company recorded a change in fair value of the derivative liabilities of \$7,035,248 and \$8,236,238, respectively. At September 30, 2008, no derivative instruments were recorded.

When the Company adopted the FASB authoritative guidance, the fair value of the warrants and the conversion feature of the notes were bifurcated from the convertible debt contracts and accounted for as a liability, and the gain

on extinguishment of the bifurcated derivative is shown separately from the conversion of the debt.

7. COMMON STOCK

During the nine months ended September 30, 2009, the Company issued 2,333,000 shares of common stock in exchange for investor relations consulting services valued at \$454,935, based on the closing price of the Company's stock on the date of issuance.

18

On July 28, 2009, the Board of Directors approved an amendment of the articles of incorporation to increase the number of authorized shares of the Company's common stock from 200,000,000 to 300,000,000 shares. The amendment was approved by the Company's shareholders at the annual meeting of shareholders held on September 21, 2009.

On July 1, 2009, there were \$935,650 of Debentures outstanding, of which \$535,650 and accrued interests were converted into 4,080,371 shares of the Company's common stock at the stated conversion price of \$0.15 per share.

8. WARRANTS AND OPTIONS

At September 30, 2009 and December 31, 2008, outstanding warrants and options were as follows:

| | Number of Shares under Warrants and Options | Weighted Average Exercise Price |
|--|--|---------------------------------------|
| Warrants and options outstanding at January 1, 2009 | 9,361,434 | 0.15 |
| Warrants and options granted | 34,775,999 | \$ 0.285 |
| Warrants and options expired | - | - |
| Warrants and options outstanding at September 30, 2009 | 44,137,433 | \$ 0.25 |

The following table summarizes information about warrants and options outstanding at September 30, 2009:

| Outstanding Warrants and Options | | | Exercisable Warrants and Options | | |
|----------------------------------|---|---|---|---------------------------------------|--|
| Exercise price | Number of shares under warrants and options | Weighted average remaining contractual life (years) | Number of shares under warrants and options exercisable | Weighted average exercise price | |
| \$0.15 | 9,239,798 | 1.96 | 9,239,798 | \$ 0.15 | |
| \$0.228 | 4,270,736 | 3.00 | 4,270,736 | \$ 0.228 | |
| \$0.24 | 121,636 | 1.10 | 121,636 | \$ 0.24 | |
| \$0.285 | 14,250,000 | 2.75 | 14,250,000 | \$ 0.285 | |
| \$0.285 | 16,255,263 | 2.81 | 16,255,263 | \$ 0.285 | |
| \$0.25 | 44,137,433 | | 44,137,433 | \$ 0.25 | |

At September 30, 2009, the aggregate intrinsic value of the warrants and options outstanding and exercisable was \$8,768,738.

9. RELATED PARTY TRANSACTIONS

Amounts due to related parties at September 30, 2009 and December 31, 2008 consisted of the following:

| | September 30, 2009 | December 31, 2008 |
|-------------------|-----------------------|----------------------|
| Due to directors: | | |
| Mr. Peng Zhou | \$ - | \$ 395,049 |
| Mr. Baowen Ren | 70,229 | 70,000 |
| | \$ 70,229 | \$ 465,049 |

Amounts due to directors are non-interest bearing, unsecured, and due on demand.

10. SUBSEQUENT EVENTS

The Company has evaluated subsequent events occurring between the end of our fiscal quarter on September 30, 2009 and November 10, 2009, which is the date the accompanying financial statements were issued.

On October 28, 2009, the Company commenced operations at its second CWM production facility located in Shenyang, the capital of Liaoning Province in northeastern China. The Shenyang facility has annual CWM output capacity of approximately 300,000 metric tons, which expands the Company's total annual CWM output capacity to approximately 650,000 metric tons.

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

The following management's discussion and analysis should be read in conjunction with our consolidated financial statements and the notes thereto and the other financial information appearing elsewhere in this item. In addition to historical information, the following discussion contains certain forward-looking statements within the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. These statements relate to our future plans, objectives, expectations and intentions. These statements may be identified by the use of words such as "may", "will", "could", "expect", "anticipate", "intend", "believe", "estimate", "plan", "predict", and similar terms or terminology, or the use of such terms or other comparable terminology. Although we believe the expectations expressed in these forward-looking statements are based on reasonable assumptions within the bound of our knowledge of our business, our actual results could differ materially from those discussed in these statements. Factors that could contribute to such differences include, but are not limited to, those discussed in the "Risk Factors" section of the Company's Annual Report on Form 10-KSB filed with the SEC on April 15, 2008. We undertake no obligation to update publicly any forward-looking statements for any reason even if new information becomes available or other events occur in the future.

Our financial statements are prepared in U.S. Dollars and in accordance with accounting principles generally accepted in the United States. See "Exchange Rates" below for information concerning the exchanges rates at which Renminbi were translated into U.S. Dollars at various pertinent dates and for pertinent periods.

In this Form 10-Q, references to "we", "our", "us", the "Company" or the "Registrant" refer to Sino Clean Energy Inc., a Nevada corporation, and its subsidiaries and affiliated companies.

Overview

Sino Clean Energy Inc. is a holding company incorporated in Nevada that is engaged in researching, developing, producing and selling coal water mixture ("CWM"), a fuel substitute for oil, gas and coal in the People's Republic of China ("PRC" or "China"). All of the Company's business operations are conducted through Shaanxi Suo'ang Biological Science & Technology Co., Ltd. ("Suo'ang BST"), a PRC company that the Company controls through contractual arrangements, and Shaanxi Suo'ang New Energy Enterprise Co., Ltd. ("Suo'ang New Energy"), a PRC company.

The contractual arrangements with Suo'ang BST enable us to control and receive the profits of Suo'ang BST, and were originally between Suo'ang BST and Hangson. On June 30, 2009, all of the rights and obligations of Hangson under the contractual arrangements were transferred to Suoke Clean Energy. Other than our interests in the contractual arrangements with Suo'ang BST, neither we nor our subsidiaries have any equity interests in Suo'ang BST.

In July 2009, we sold approximately \$11.6 million in aggregate principal amount of 10% senior secured convertible notes and warrants to purchase up to approximately 30.5 million shares of common stock to several institutional and/or accredited investors, in a private placement pursuant to Regulation D promulgated under the Securities Act of 1933, as amended (the "July 2009 Financing"). We had two closings, on July 1 and July 20.

On September 27, 2009, we received approval from the Tongchuan Bureau of Commerce for the transfer of all of Suo'ang New Energy's equity interests to Tongchuan Suoke Clean Energy Co., Ltd. ("Suoke New Energy"), a PRC limited liability company wholly-owned by Wiscon Holdings Limited ("Wiscon"), a Hong Kong company wholly-owned by Hangson Limited, the Company's wholly-owned subsidiary in the British Virgin Islands. With the approval, Suo'ang New Energy has become a "domestic PRC enterprise wholly-owned by a wholly-foreign owned enterprise." However, registration of the approval with the Tongchuan municipal government is necessary before Suo'ang New Energy can be deemed Suoke New Energy's wholly-owned subsidiary under applicable PRC law, which registration is pending but which we anticipate to be completed by the end of November 2009.

On September 28, 2009, we filed a Certificate of Amendment to Articles of Incorporation (the “Certificate”) with the Nevada Secretary of State to increase the number of our authorized shares of common stock from 200,000,000 to 300,000,000 shares. The Certificate was approved by our board of directors on July 28, 2009, and by our shareholders at our annual meeting of shareholders on September 21, 2009.

CWM is sold and distributed directly to our customers. We have a CWM plant located in the city of Tongchuan, north of Xi’an, the ancient capital of China and the provincial capital of Shaanxi Province. The Tongchuan plant presently has an annual production capacity of 350,000 metric tons (“tonnes”), and supply to our customers in Shaanxi Province. On October 28, 2009, we commenced operations at our new CWM production plant located in Shenyang, the capital of Liaoning Province in northeastern China. The Shenyang plant has annual output capacity of 300,000 tonnes, increasing our total annual CWM production capacity to 650,000 tonnes. Suo’ang New Energy also acts as an agent for Qingdao Haizhong Industry Inc., an unrelated third-party manufacturer of boilers that are compatible with our CWM, and receives commission for sales of such boilers.

Significant Factors Affecting Our Results of Operations

The most significant factors that affect our financial condition and results of operations are:

- economic conditions in China;
- market price for crude oil and coal;
- supply and costs of principal raw materials;
- demand for, and market acceptance of, CWM; and
- production capacity

Economic conditions in China

We operate our manufacturing facilities in China and derive all of our revenues from sales to customers in China. Economic conditions in China, therefore, and the specific geographical markets where we operate affect virtually all aspects of our operations, including the demand for our products, the availability and prices of our raw materials and our other expenses. While China is expected to experience continued growth in all areas of investment and consumption, even in the face of a global economic recession, we cannot speak to how long such growth will continue, if at all.

Supply and costs of coal as the principal raw material

Our ability to manage our costs depends significantly on our ability to secure affordable and steady supplies of coal, our primary raw materials. We currently procure coal from 5 suppliers in Tongchuan and Shenyang, two coal producing regions in China. While we have historically been able to secure a sufficient supply of coal, we are subject to fluctuating market prices. Between 2008 and September 30, 2009, for example, we experienced an increase in the average cost per tonne of coal of 6%, from RMB496 to RMB527. Our operating costs may increase significantly if the price of our raw materials increases due to changes in consumption patterns or as a result of price fluctuations in the local coal market, which may be caused by numerous economic and regulatory factors. To the extent that we pass on the material costs increase to the customers, our revenue may also increase significantly as the coal price arises in the PRC market.

Market price for coal and crude oil

We price our CWM based on the market price for coal for two reasons: (1) coal accounts for over 88% of our production costs, and we are able to pass on majority of the material cost increases to the customers; (2) past experiences indicate that we are able to sell CWM at a slight discount to local retail coal prices. In addition, CWM is a replacement fuel for oil and gas, and thus our business activities are affected by the price of, and demand and supply in crude oil. Changes in global prices of crude oil, any interruption in the supply of crude oil or any governmental regulation of the price of oil may affect our ability to convince our customers to incur the capital expenditure of acquiring CWM burning equipment. During the recent years, crude oil prices have fluctuated significantly.

The pricing of refined oil products is heavily regulated by the PRC government. The government occasionally publishes the price adjustments to reflect the international crude oil price movement. Any material change in these guidance prices, or delay in adjusting guidance prices despite any rapid increase in the international crude oil price, may affect the demand and the selling prices for our CWM products, which in turn may adversely affect our financial condition and results of operations.

Demand for, and market awareness of, CWM

China's CWM industry remains in an early stage. Our three principal groups of customers are industrial, government and residential users. These users adopt CWM as substitute for coal or refined oil being burned as fuel for their furnaces or boilers. Current PRC law and government policies promote the development and utilization of clean energy, as well as the improved utilization of coal. We believe that demand for our CWM products should increase over time. The average selling price of CWM increased by 16% from RMB 620 to RMB 720 per tonne in the past 2 years.

Production capacity

In order to capture the market opportunity for our products, we have expanded, and plan to continue to expand, our production capacity. Increased capacity has had, and could continue to have, a significant effect on our results of operations, by allowing us to produce and sell more CWM to generate higher revenues. Our annual production capacity increased from 100,000 tonnes in 2007 to 350,000 tonnes in March 2009 to 650,000 tonnes as at November 11, 2009. We sold 31,000, 137,850, and 249,150 tonnes of CWM in 2007, 2008 and the nine months ended 30 September 2009, respectively.

Critical Accounting Policies and Estimates

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Because of the use of estimates inherent in the financial reporting process, actual results could differ from those estimates.

Revenue Recognition

Sales are recognized in when the following four revenue criteria are met: persuasive evidence of an arrangement exists, delivery has occurred, the selling price is fixed or determinable, and collectibility is reasonably assured. Revenues are presented net of value added tax ("VAT"). In our revenue arrangements, physical delivery is the point in time when customer acceptance occurs since title and risk of loss are transferred to the customer. No return allowance is made as products are normally not returnable upon acceptance by the customers.

Derivative Financial Instruments

The Company does not use derivative instruments to hedge exposures to cash flow, market or foreign currency risks. The Company 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 in the condensed consolidated statements of operations. For stock-based derivative financial instruments, the Company uses both the Black-Scholes-Merton and Binomial option pricing models to value the derivative instruments at inception and on subsequent valuation dates. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is evaluated 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.

Stock based Compensation

The Company periodically issues stock options and warrants to employees and non-employees in capital raising transactions, for services and for financing costs. Stock-based compensation is measured at the grant date, based on the fair value of the award, and is recognized as expense over the requisite service period. Options vest and expire according to terms established at the grant date.

Recently issued accounting pronouncements

In June 2009, the FASB issued authoritative guidance on accounting standards codification and the hierarchy of generally accepted accounting principles effective for interim and annual reporting periods ending after September 15, 2009. The FASB accounting standards codification ("ASC, "Codification") has become the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in accordance with GAAP. All existing accounting standard documents are superseded by the Codification and any accounting literature not included in the Codification will not be authoritative. However, rules and interpretive releases of the SEC issued under the authority of federal securities laws will continue to be sources of authoritative GAAP for SEC registrants. Beginning with the quarter ending September 30, 2009, all references made by the Company to GAAP in its condensed consolidated financial statements use the Codification numbering system.

The Codification does not change or alter existing GAAP and, therefore, it does not have an impact on our financial position, results of operations and cash flows.

On July 1, 2009, the Company adopted authoritative guidance issued by the FASB on business combinations. The guidance retains the fundamental requirements that the acquisition method of accounting (previously referred to as the purchase method of accounting) be used for all business combinations, but requires a number of changes, including changes in the way assets and liabilities are recognized and measured as a result of business combinations. It also requires the capitalization of in-process research and development at fair value and requires the expensing of acquisition-related costs as incurred. We will apply this guidance to business combinations completed after July 1, 2009. Adoption of the new guidance did not have a material impact on our financial statements

On July 1, 2009, the Company adopted authoritative guidance issued by the FASB on accounting and reporting for non-controlling interests. Non-controlling interests are to be reported as a component of equity separate from the parent's equity, and purchases or sales of equity interests that do not result in a change in control are to be accounted for as equity transactions. In addition, net income attributable to a non-controlling interest is to be included in net income and, upon a loss of control, the interest sold, as well as any interest retained, is to be recorded at fair value with any gain or loss recognized in net income. Adoption of the new guidance did not have a material impact on our financial statements.

On January 1, 2009, the Company adopted authoritative guidance issued by the FASB which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. This pronouncement requires enhanced disclosures concerning a company's treatment of costs incurred to renew or extend the term of a recognized intangible asset. Although this may impact our reporting in future financial periods, we have determined that the standard did not have any impact on our historical consolidated financial statements at the time of adoption.

In June 2009, the FASB made an update to consolidation of variable interest entities. Among other things, the update replaces the calculation for determining which entities, if any, have a controlling financial interest in a variable interest entity (VIE) from a quantitative based risks and rewards calculation, to a qualitative approach that focuses on identifying which entities have the power to direct the activities that most significantly impact the VIE's economic performance and the obligation to absorb losses of the VIE or the right to receive benefits from the VIE. The update also requires ongoing assessments as to whether an entity is the primary beneficiary of a VIE (previously, reconsideration was only required upon the occurrence of specific events), modifies the presentation of consolidated VIE assets and liabilities, and requires additional disclosures about a company's involvement in VIEs. This update will be effective for fiscal years beginning after November 15, 2009. The Company does not currently believe that the adoption of this update will have any effect on its consolidated financial position and results of operations.

In October 2009, the FASB issued authoritative guidance on revenue recognition that will become effective for us beginning July 1, 2010, with earlier adoption permitted. Under the new guidance on arrangements that include software elements, tangible products that have software components that are essential to the functionality of the tangible product will no longer be within the scope of the software revenue recognition guidance, and software-enabled products will now be subject to other relevant revenue recognition guidance. Additionally, the FASB issued authoritative guidance on revenue arrangements with multiple deliverables that are outside the scope of the software revenue recognition guidance. Under the new guidance, when vendor specific objective evidence or third party evidence for deliverables in an arrangement cannot be determined, a best estimate of the selling price is required to separate deliverables and allocate arrangement consideration using the relative selling price method. The new guidance includes new disclosure requirements on how the application of the relative selling price method affects the timing and amount of revenue recognition. We believe the adoption of this new guidance will not have a material impact on our financial statements.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the AICPA, and the SEC did not or are not believed by management to have a material impact on the Company's present or future consolidated financial statements.

Results of Operations--Three month period ended September 30, 2009 as compared to three month period ended September 30, 2008

Revenue. During the three-month period ended September 30, 2009, we had revenues from sales of our coal water mixture of \$10,757,826 as compared to revenues of \$ 3,419,941 during the three-month period ended September 30, 2008, an increase of 315%. This increase is mainly attributable to the increased production from the production line added in early 2009, which led to increase in sales to existing customers. The annual production capacity as at September 30, 2009 was 350,000 tonnes as compared to 100,000 tonnes as at September 30, 2008. At September 30, 2009, we had 35 customers under CWM supply agreements totaling approximately 559,000 tonnes per year, as compared to 27 customers totaling approximately 350,000 tonnes of CWM per year at September 30, 2008.

Cost of Goods Sold. Cost of goods sold, consisting of raw materials, direct labor and manufacturing overhead, depreciation of plant and machinery, was \$6,812,469 for the three-month period ended September 30, 2009, as compared to \$2,297,227 for the same period of 2008, an increase of 297%. The increase in cost of goods sold is in line with the increase in sales. Gross profit margin improved from 33% in 2008 to 37% in 2009 as a result of better pricing

in CWM. As a result of the new production line added in early 2009, depreciation of plant and machinery for the three-month period ended September 30, 2009 was \$375,134 as compared to \$58,789 for the same period last year.

Selling Expenses. Selling expenses totaled \$416,566 for the three-month period ended September 30, 2009, as compared to \$3,106 for the three-month period ended September 30, 2008, an increase of 13,412%. The increase is mainly due to the increase in transportation cost.

General and Administrative Expenses. General and administrative expenses totaled \$471,683 for the three-month period ended September 30, 2009, as compared to \$204,915 for the three-month period ended September 30, 2008. This increase was primarily caused by the expenses related to the July 2009 Financing.

Income from Operations. Our income from operations for the three months ended September 30, 2009 was \$3,057,108, an increase of 334% as compared to \$914,693 for the same period in 2008, in line with the increase in sales period over period.

Other Income (Expense). Our other income for the three months ended September 30, 2009 decreased by 14,530%, from \$230,115 in other income in 2008 to \$33,509,126 in other expense in 2009, mainly as a result of the cost of private placement of \$24,794,842 related to the July 2009 Financing.

Net Income. We had a net loss of \$30,915,068 for the three-month period ended September 30, 2009, as compared to net income of \$1,144,737 for the same period in 2008. The decrease in net income is primarily attributable to incurrence of other expense discussed above.

Results of Operations--Nine month period ended September 30, 2009 as compared to nine month period ended September 30, 2008

Revenue. During the nine-month period ended September 30, 2009, we had revenues from sales of our coal water mixture of \$26,659,312 as compared to revenues of \$9,156,293 during the nine-month period ended September 30, 2008, an increase of 291%. This increase is mainly attributable to the increased production from the production line added in early 2009, which led to an increase in sales to existing customers. The annual production capacity as at September 30, 2009 was 350,000 tonnes as compared to 100,000 tonnes as at September 30, 2008. At September 30, 2009, we had 35 customers under CWM supply agreements totaling approximately 559,000 tonnes per year, as compared to 27 customers totaling approximately tonnes of CWM per year at September 30, 2008.

Cost of Goods Sold. Cost of goods sold, consisting of raw materials, direct labor and manufacturing overhead, depreciation of plant and machinery, was \$17,695,505 for the nine-month period ended September 30, 2009, as compared to \$6,227,606 for the same period of 2008, an increase of 284%. The increase in cost of sales sold is in line with the increase in sales. Gross profit margin improved from 32% in 2008 to 34% in 2009 as a result of better pricing in CWM. As a result of the new production line added in early 2009, depreciation of plant and machinery for the nine-month period ended September 30, 2009 was \$1,068,843 as compared to \$ 175,399 for the same period last year.

Selling Expenses. Selling expenses totaled \$422,405 for the nine-month period ended September 30, 2009, as compared to \$7,871 for the nine-month period ended September 30, 2008, an increase of 5,366%. This increase in selling expenses is mainly due to the increase in transportation cost of \$403,444.

General and Administrative Expenses. General and administrative expenses totaled \$1,452,975 for the nine-month period ended September 30, 2009, as compared to \$590,719 for the nine-month period ended September 30, 2008. This increase was primarily caused by the expenses related to the July 2009 Financing.

Income from Operations. Our income from operations for the nine months ended September 30, 2009 was \$7,088,427, an increase of 304% as compared to \$2,330,097 for the same period in 2008, in line with the increase in sales period over period.

Other Income (Expense). Our other income for the nine months ended September 30, 2009 decreased by 6,667%, from \$525,957 in other income in 2008 to \$34,840,472 in other expense in 2009, mainly as a result of the cost of private placement of \$24,794,842 related to the fund raised in July 2009.

Net Income. We had a net loss of \$28,807,763 for the nine-month period ended September 30, 2009, as compared to net income of \$2,480,126 for the same period in 2008. The decrease in net income is primarily attributable to incurrence of other expense discussed above.

Liquidity and Capital Resources

For the nine-month period ended September 30, 2009, we generated \$5,103,069 from operating activities, as compared to \$33,925 that we used in operating activities for the nine-month period ended September 30, 2008. This increase is primarily due to the increase in revenue.

For the nine-month period ended September 30, 2009, we generated \$9,254,028 in financing activities, primarily in connection with proceeds of \$11,592,000 from the July 2009 Financing, as compared to \$1,113,746 that we generated from financing activities during the nine-month period ended September 30, 2008, mainly from the proceeds of \$1,148,491 from our financing in September 2008.

Edgar Filing: Sino Clean Energy Inc - Form 10-Q

For the nine-month period ended September 30, 2009, \$4,303,540 was used in investing activities, mainly related to prepayments and deposits for the construction of our new Shenyang production plant, as compared to \$1,533,283 used in investing activities for the nine-month period ended September 30, 2008.

As of September 30, 2009, we had cash of \$13,970,487. Our total current assets were \$21,743,815 and our total current liabilities were \$1,805,800, which resulted in a net working capital of \$19,938,015.

Capital Resources

On July 2009, we raised approximately \$11.6 million of gross proceeds in the July 2009 Financing.

We believe that we have sufficient cash flow to meet our obligations on a timely basis in the foreseeable future.

Contractual Obligations

We have certain commitments that include future payments. We have presented below a summary in order to assist in the review of this information within the context of our consolidated financial position, results of operations, and cash flows.

| | Total | Payments Due by Period | | | |
|---------------------------------------|----------------------|------------------------|-------------------|---------------|----------------|
| | | Less than 1 year | 1-3 Years | 3-5 Years | 5 Years + |
| Contractual obligations: | | | | | |
| Capital expenditure commitment | \$ 1,010,397 | 1,010,397 | - | - | - |
| Operating Leases | \$ 328,013 | - | 123,005 | 70,288 | 134,720 |
| Coal inventory purchase agreement | \$ - | - | - | - | - |
| Debt repayment and interest on debt | \$ 14,777,420 | - | 14,777,420 | - | - |
| Total contractual obligations: | \$ 16,115,830 | 1,010,397 | 14,900,425 | 70,288 | 134,720 |

Operating lease amounts include minimum lease payments under our non-cancelable operating leases for our office premises and production plants. The amounts presented are consistent with contractual terms and are not expected to differ significantly, unless a substantial change in our headcount needs requires us to exit an office facility early or expand our occupied space.

Capital commitments include capital contribution to a subsidiary and the purchase of machinery for our production of CWM.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to our investors.

Exchange Rates

Suo'ang New Energy and Suo'ang BST maintain their books and records in Renminbi ("RMB"), the lawful currency of the PRC. In general, for consolidation purposes, the Company translates the assets and liabilities of Suo'ang New Energy and Suo'ang BST into U.S. Dollars using the applicable exchange rates prevailing at the balance sheet date, and the statement of income is translated at average exchange rates during the reporting period. Adjustments resulting from the translation of their financial statements are recorded as accumulated other comprehensive income.

Until July 21, 2005, RMB had been pegged to US\$ at the rate of RMB8.30: US\$1.00. On July 21, 2005, the PRC government reformed the exchange rate system into a managed floating exchange rate system based on market supply and demand with reference to a basket of currencies. In addition, the exchange rate of RMB to US\$ was adjusted to RMB8.11: US\$1.00 as of July 21, 2005. The People's Bank of China announces the closing price of a foreign currency such as US\$ traded against RMB in the inter-bank foreign exchange market after the closing of the market on each working day, which will become the unified exchange rate for the trading against RMB on the following working day. The daily trading price of US\$ against RMB in the inter-bank foreign exchange market is allowed to float within a band of $\pm 0.3\%$ around the unified exchange rate published by the People's Bank of China. This quotation of exchange rates does not imply free convertibility of RMB to other foreign currencies. All foreign exchange transactions continue to take place either through the Bank of China or other banks authorized to buy and sell foreign currencies at the exchange rates quoted by the People's Bank of China. Approval of foreign currency payments by the Bank of China or other institutions required submitting a payment application form together with invoices, shipping documents and signed contracts.

The exchange rates used to translate amounts in RMB into US Dollars for the purposes of preparing the consolidated financial statements or otherwise stated in this MD&A were as follows:

| | September 30, 2009 | December 31, 2008 | September 30, 2008 |
|--|-----------------------|----------------------|-----------------------|
| Balance sheet items, except for the registered and paid-up capital, as of end of period/year | USD1:RMB6.8290 | USD1:RMB6.8346 | USD1:RMB6.8183 |
| Amounts included in the statement of operations, statement of changes in stockholders' equity and statement of cash flows for the period/ year ended | USD1:RMB6.8329 | USD1:RMB7.0671 | USD1:RMB7.0615 |

No representation is made that RMB amounts have been, or would be, converted into US\$ at the above rates.

Inflation

We believe that inflation has not had a material effect on our operations to date.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not applicable

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. 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, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Our disclosure controls and procedures were designed to provide reasonable assurance that the controls and procedures would meet their objectives.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the applicable period to ensure that the information required to be disclosed by the Company in reports that it files or submits under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and (ii) is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures. Such conclusion was based on the following: (i) since his engagement in December 2008, our current Chief Financial Officer has been tasked with monitoring and supervising our disclosure controls and procedures; (ii) since December 2008, we have hired three additional staff members to supplement our accounting department; and (iii) in October, 2009, we engaged the Beijing office of Ernst & Young as outside consultant to assist with evaluating and improving accounting system and working process (including

internal audit and material transaction review and verification process) to strengthen the timeliness and efficiency of our disclosure and internal controls and procedures.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal controls over financial reporting that occurred during the three-month period ended September 30, 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 1A. Risk Factors.

You should carefully consider the risks described below together with all of the other information included in this report before making an investment decision with regard to our securities. The statements contained in or incorporated into this offering that are not historic facts are forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those set forth in or implied by forward-looking statements. If any of the following risks actually occurs, our business, financial condition or results of operations could be harmed. In that case, the trading price of our common stock could decline, and you may lose all or part of your investment.

Risks Associated With Our Business

Our limited operating history makes it difficult to evaluate our future prospects and results of operations.

We have a relatively limited operating history. Suo'ang BST commenced operations in 2002 and first achieved profitability in the year ended 2004. Accordingly, you should consider our future prospects in light of the risks and uncertainties experienced by early stage companies in evolving industries such as the coal products and alternative energy industry in China. An investor in our securities must consider the risks, uncertainties and difficulties frequently encountered by companies in new and rapidly evolving markets. The risks and difficulties we face include challenges in accurate financial planning as a result of limited historical data and the uncertainties resulting from having had a relatively limited time period in which to implement and evaluate our business strategies as compared to older companies with longer operating histories.

We have a very brief operating history as a CWM producer.

In December 2006, we decided to solely focus on the research, development, production, marketing and sale of CWM and accordingly phased out our COPO resin products business in January 2007. We signed our first sales contracts for CWM in early 2007, completed our first CWM production line in June 2007, and commenced production and distribution of CWM in July 2007. While we have also recently increased our annual production capacity to 600,000 tonnes, our operating history as a CWM producer is fairly brief, and we cannot assure you that our operations will be able to generate sufficient revenue to continue our operations or that the CWM business will be profitable.

We may require additional financing to execute our business plan.

The revenues from the sales of CWM may not be adequate to support the expansion of our business. We will need substantial additional funds to build and maintain new production facilities, pursue research and development activities, obtain necessary regulatory approvals and market our business. While we may seek additional funds through public or private equity or debt financing, strategic transactions and/or from other sources, there are no assurances that future funding will be available on favorable terms or at all. If additional funding is not obtained, we may need to reduce, defer or cancel any plans of expansion, including overhead expenditures, to the extent necessary. The failure to fund our capital requirements as they arise would have a material adverse effect on our business, financial condition and results of operations.

Our business and results of operations are dependent on the PRC coal markets, which may be cyclical.

As the majority of our revenue is derived from sales of CWM, our business and operating results are substantially dependent on the domestic supply of coal, especially washed coal. The PRC coal market is cyclical and exhibits fluctuation in supply and demand from year to year and is subject to numerous factors beyond our control, including, but not limited to, the economic conditions in the PRC, the global economic conditions and fluctuations in industries with high demand for coal, such as the power and steel industries. Fluctuations in supply and demand for coal have effects on coal prices which, in turn, affect our operating and financial performance. The demand for coal is primarily affected by the overall economic development and the demand for coal from the electricity generation, steel and construction industries. The supply of coal, on the other hand, is primarily affected by the geographical location of the coal supplies, the volume of coal produced by domestic and international coal suppliers, and the quality and price of competing sources of coal. Alternative fuels such as natural gas, oil and nuclear power, alternative energy sources such as hydroelectric power, and international shipping costs also have effects on the market demand for coal. Excess demand for coal may have an adverse effect on coal prices which would, in turn, cause a decline in our profitability. A significant increase in domestic coal prices could also materially and adversely affect our business and result of operations.

Our business is currently dependent on a relatively limited number of customers.

Our total number of customers is still relatively limited, and any adverse developments to any one of their business operations could have an adverse impact on our results of operations.

Our business and prospects will be adversely affected if we are not able to compete effectively.

We face competition in all areas of our business. While we have no direct competitor for CWM in Shaanxi Province where we are based, there are other CWM producers in other areas of China that may look to expand their business into our market. Additionally, we must compete against producers of other forms of energy such as coal, gas and oil, which may have broader market acceptance. Some of our competitors may have greater financial, marketing, distribution and technological resources than we have, and they may have more well-known brand names in the marketplace. If we are unable to compete effectively against our competitors, this may have a material adverse impact on our results of operations.

We may suffer losses resulting from industry-related accidents and lack of insurance.

Our manufacturing facilities may be affected by water, gas, fire or structural problems. As a result, we, like other coal-based products companies, may experience accidents that will cause property damage and personal injuries. Although we have implemented safety measures for our production facilities and provided on-the-job training for our employees, there can be no assurance that industry-related accidents will not occur in the future. Additionally, the risk of accidental contamination or injury from handling and disposing of our product cannot be completely eliminated. In the event of an accident, we could be held liable for resulting damages.

We do not currently maintain fire, casualty or other property insurance covering our properties, equipment or inventories, other than with respect to vehicles. In addition, we do not maintain any business interruption insurance or any third party liability insurance to cover claims related to personal injury, property or environmental damage arising from accidents on our properties, other than third party liability insurance with respect to vehicles. Any uninsured losses and liabilities incurred by us could exceed our resources and have a material adverse effect on our financial condition and results of operations. Additionally, we could incur significant costs to comply with PRC environmental laws and regulations in the future.

Our operations are subject to a number of risks relating to the PRC.

We are also subject to a number of risks relating to the PRC, including the following:

- The PRC government currently supports the development and operation of clean coal technology such as CWM. If the PRC government changes its current policies that are currently beneficial to us, we may face significant constraints on our flexibility and ability to expand our business operations or to maximize our profitability.
- Under current PRC regulatory requirements, projects for the development of CWM require approval of the PRC government. If we are required to undertake any such projects for our growth or for cost reduction and we do not obtain the necessary approval on a timely basis or at all, our financial condition and operating performances could be adversely affected.
- The PRC government has been reforming, and is expected to continue to reform its economic system. Many of the reforms are unprecedented or experimental, and are expected to be refined and improved. Other political, economic and social factors can also lead to further readjustment of the reform measures. This refining and readjustment process may not always have a positive effect on our operations. Our operating results may be adversely affected by changes in China's economic and social conditions and by changes in policies of the PRC government such as

changes in laws and regulations (or the interpretation thereof), imposition of additional restrictions on currency conversion and reduction in tariff protection and other import restrictions.

- Since 1994, the conversion of RMB into foreign currencies, including Hong Kong and U.S. dollars, has been based on rates set by the People's Bank of China, or PBOC, which are set daily based on the previous day's PRC interbank foreign exchange market rate and current exchange rates on the world financial markets. Since 1994, the official exchange rate for the conversion of RMB to U.S. dollars has generally been stable. On July 21, 2005, however, PBOC announced a reform of its exchange rate system. Under the reform, RMB is no longer effectively linked to US dollars but instead is allowed to trade in a tight 0.3% band against a basket of foreign currencies. Any devaluation of the RMB may adversely affect the value of, and dividends payable on our shares as we receive our revenues and denominate our profits in RMB. Our financial condition and operating performance may also be affected by changes in the value of certain currencies other than RMB in which our earnings and obligations are denominated. In particular, a devaluation of the RMB is likely to increase the portion of our cash flow required to satisfy our foreign currency-denominated obligations.

- Since 1997, many new laws and regulations covering general economic matters have been promulgated in the PRC. Despite this activity to develop the legal system, PRC's system of laws is not yet complete. Even where adequate law exists, enforcement of existing laws or contracts based on existing law may be uncertain and sporadic, and it may be difficult to obtain swift and equitable enforcement or to obtain enforcement of a judgment by a court of another jurisdiction. The relative inexperience of PRC's judiciary in many cases creates additional uncertainty as to the outcome of any litigation. In addition, interpretation of statutes and regulations may be subject to government policies reflecting domestic political changes.

Competitors may develop and market products that are less expensive, more effective or safer, making CWM obsolete or uncompetitive.

Some of our competitors and potential competitors may have greater product development capabilities and financial, scientific, marketing and human resources than we do. Technological competition from other alternative energy companies is intense and is expected to increase. Other companies have developed technologies that could be the basis for competitive products. Some of these products may be more effective and are less costly than CWM. Over time, CWM may become obsolete or uncompetitive.

CWM may not gain wide market acceptance.

Despite the central government's push for clean-coal technology and the support for CWM amongst a number of municipal governments, CWM may ultimately not gain wide market acceptance in the PRC. The degree of market acceptance of any product depends on a number of factors, including establishment and demonstration of its efficacy and safety, cost-effectiveness, advantages over alternative products, and marketing and distribution support for the product. Limited information regarding these factors is available in connection with CWM or competitive products.

To establish wide market acceptance of CWM, we will require a marketing and sales force with appropriate technical expertise and supporting distribution capabilities, as well as continuing governmental support for the use of CWM. We may not be able to establish sales, marketing and distribution capabilities or enter into arrangements with third parties on acceptable terms, and our ability to influence governmental support is limited. If CWM does not gain wide market acceptance, our ability to continue to generate or increase revenue may be limited.

If we were successfully sued for product liability, we could face substantial liabilities that may exceed our resources.

We may be held liable if our product causes injury or is found unsuitable during product testing, manufacturing, marketing, sale or use. We currently do not have product liability insurance. We are not insured with respect to this liability. If we choose to obtain product liability insurance but cannot obtain sufficient insurance coverage at an acceptable cost or otherwise protect against potential product liability claims, the commercialization of our product may be prevented or inhibited. If we are sued for any injury caused by our product, our liability could exceed our total assets.

We have no business insurance coverage.

The insurance industry in China is still at an early stage of development. Insurance companies in China offer limited business insurance products. We do not have any business liability or disruption insurance coverage for our operations in China. Any business disruption, litigation or natural disaster may result in our incurring substantial costs and the diversion of our resources.

Our success depends on attracting and retaining qualified personnel.

We depend on a core team of management and operational personnel. The loss of any of these individuals could prevent us from achieving our business objectives. Our future success will depend in large part on our continued ability to attract and retain other highly qualified management and operational personnel, as well as personnel with expertise in our field and industry. We face competition for personnel from other companies, universities, public and private research institutions, government entities and other organizations. If our recruitment and retention efforts are unsuccessful, our business operations could suffer.

Downturn in the global economy may slow domestic growth in China, which, in turn, may effect our business.

Due to the global downturn in the financial markets, China may not be able to maintain its recent growth rates mainly due to the decreased demand for China's exported good in countries that are in recessions. Although we do not presently export any of our products, our earnings may become unstable if China's domestic growth slows significantly and the domestic demand for energy declines.

Risk Related to the Alternative Energy Industry

A drop in the retail price of conventional energy or other alternative energy may have a negative effect on our business.

A customer's decision to purchase CWM will be primarily driven by the return on investment resulting from the energy savings from CWM. Any fluctuations in economic and market conditions that impact the viability of conventional and other alternative energy sources, such as decreases in the prices of oil and other fossil fuels could cause the demand for CWM to decline. Although we believe that current levels of retail energy prices support a reasonable return on investment for CWM, there can be no assurance that future retail pricing of conventional energy and other alternative energy will remain at such levels.

Existing regulations and changes to such regulations may present technical, regulatory and economic barriers to the purchase and use of CWM, which may significantly affect the demand for our products.

CWM is subject to oversight and regulations in accordance with national and local ordinances and regulations relating to safety, environmental protection, and related matters. We are responsible for knowing such ordinances and regulations, and must comply with these varying standards. Any new government regulations or utility policies pertaining to our product may result in significant additional expenses to us and our customers and, as a result, could cause a significant reduction in demand for our product.

The market for CWM is emerging and rapidly evolving, and its future success remains uncertain. If CWM is not suitable for widespread adoption or sufficient demand for CWM does not develop or takes longer to develop than we anticipate, our sales would not significantly increase and we would be unable to achieve or sustain profitability. In addition, demand for CWM in the markets and geographic regions where we operate may not develop or may develop more slowly than we anticipate. Many factors will influence the widespread adoption of CWM and demand for our products, including:

- cost-effectiveness of CWM as compared with conventional and other alternative energy products and technologies;
- performance and reliability of CWM as compared with conventional and other alternative energy products and technologies;
 - capital expenditures by customers that tend to decrease if the PRC or global economy slows down; and
 - availability of government subsidies and incentives.

Risks Related to Our Corporate Structure

PRC laws and regulations governing our businesses and the validity of certain of our contractual arrangements are uncertain. If we are found to be in violation, we could be subject to sanctions. In addition, changes in such PRC laws and regulations may materially and adversely affect our business.

There are substantial uncertainties regarding the interpretation and application of PRC laws and regulations, including, but not limited to, the laws and regulations governing our business, or the enforcement and performance of our contractual arrangements with our affiliated Chinese entity, Suo'ang BST, and its stockholders. We are considered a foreign person under PRC law. As a result, we are subject to PRC law limitations on foreign ownership of certain Chinese companies. These laws and regulations are relatively new and may be subject to change, and their official interpretation and enforcement may involve substantial uncertainty. The effectiveness of newly enacted laws, regulations or amendments may be delayed, resulting in detrimental reliance by foreign investors. New laws and regulations that affect existing and proposed future businesses may also be applied retroactively.

The PRC government has broad discretion in dealing with violations of laws and regulations, including levying fines, revoking business and other licenses and requiring actions necessary for compliance. In particular, licenses and permits issued or granted to us by relevant governmental bodies may be revoked at a later time by higher regulatory bodies. We cannot predict the effect of the interpretation of existing or new PRC laws or regulations on our businesses. We cannot assure you that our current ownership and operating structure would not be found in violation of any current or future PRC laws or regulations. As a result, we may be subject to sanctions, including fines, and could be required to restructure our operations or cease to provide certain services. Any of these or similar actions could significantly disrupt our business operations or restrict us from conducting a substantial portion of our business operations, which could materially and adversely affect our business, financial condition and results of operations.

We may be adversely affected by complexity, uncertainties and changes in PRC regulation of our business and industry, including limitations on our ability to own key assets.

The PRC government regulates the energy industries including foreign ownership of, and the licensing and permit requirements pertaining to, companies in these industries. These laws and regulations are relatively new and evolving, and their interpretation and enforcement involve significant uncertainty. As a result, in certain circumstances it may be difficult to determine what actions or omissions may be deemed to be a violation of applicable laws and regulations. Issues, risks and uncertainties relating to PRC government regulation of our industry include the following:

- We only have contractual control over Suo'ang BST. Neither we nor our subsidiary own any equity interests in Suo'ang BST due to restriction of foreign investment in certain Chinese businesses; and
- Uncertainties relating to the regulations of our industry in China, including evolving licensing practices, means that permits, licenses or operations at our company may be subject to challenge. This may disrupt our business, or subject us to sanctions, requirements to increase capital or other conditions or enforcement, or compromise enforceability of related contractual arrangements, or have other harmful effects on us.

The interpretation and application of existing PRC laws, regulations and policies and possible new laws, regulations or policies have created substantial uncertainties regarding the legality of existing and future foreign investments in, and the businesses and activities of, alternative energy businesses in China, including our business.

We control Suo'ang BST by means of contractual arrangements rather than actual ownership. If the PRC government determines that these contractual arrangements do not comply with applicable regulations, our control of Suo'ang BST may be adversely effected.

We control Suo'ang BST through contractual arrangements between Suo'ang BST and Suoke Clean Energy that allow us to substantially control Suo'ang BST. We cannot assure you, however, that we will be able to enforce these contracts. Although we believe we comply with current Chinese regulations, and have been advised by our PRC counsel that, in their opinion, the contractual arrangements with Suo'ang BST comply with all applicable PRC laws, rules and regulations, and do not violate, breach, contravene or otherwise conflict with any applicable PRC laws, rules or regulations, we cannot assure you that the Chinese government would agree that these operating arrangements comply with Chinese licensing, registration or other regulatory requirements, with existing policies or with requirements or policies that may be adopted in the future. If the Chinese government determines that we do not comply with applicable law, it could revoke our business and operating licenses, require us to discontinue or restrict our operations, restrict our right to collect revenues, require us to restructure our operations, impose additional conditions or requirements with which we may not be able to comply, impose restrictions on our business operations or on our customers, or take other regulatory or enforcement actions against us that could be harmful to our business.

Our contractual arrangements with Suo'ang BST may not be as effective in providing control over it as direct ownership.

Neither we nor our subsidiaries have equity ownership interest in Suo'ang BST, and we rely on contractual arrangements to control and operate its business. These contractual arrangements may not be as effective in providing control over Suo'ang BST as direct ownership. For example, Suo'ang BST could fail to take actions required for our business despite its contractual obligation to do so. If Suo'ang BST fails to perform under the contractual arrangements, we may have to rely on legal remedies under PRC law, which may not be effective. In addition, we cannot assure you that Suo'ang BST's stockholders will always act in our best interests.

Because we derive revenue from Suo'ang BST pursuant to the consulting services agreement with Suo'ang BST, the termination of this agreement may severely and detrimentally affect our financial performances.

We derive revenue on dividend payments from Suoke Clean Energy after it receives payments from Suo'ang BST pursuant to the consulting services agreement which forms a part of the contractual arrangements between Suoke Clean Energy and Suo'ang BST. The consulting services agreement may be terminated by written notice of Suoke Clean or Suo'ang BST in the event that: (a) one party causes a material breach of the agreement, provided that if the breach does not relate to a financial obligation of the breaching party, that party may attempt to remedy the breach within 14 days following the receipt of the written notice; (b) one party becomes bankrupt, insolvent, is the subject of proceedings or arrangements for liquidation or dissolution, ceases to carry on business, or becomes unable to pay its debts as they become due; (c) Suoke Clean Energy terminates its operations; (d) Suo'ang BST's business license or any other license or approval for its business operations is terminated, cancelled or revoked; or (e) circumstances arise which would materially and adversely affect the performance or the objectives of the agreement.

Additionally, Suoke Clean Energy may terminate the consulting services agreement without cause. Because neither we nor our subsidiaries own equity interests of Suo'ang BST, the termination of the consulting services agreement would sever our ability to continue receiving payments from Suo'ang BST. While we are currently not aware of any event or reason that may cause the consulting services agreement to terminate, we cannot assure you that such an event or reason will not occur in the future. In the event that the consulting services agreement is terminated, this may have a severe and detrimental effect on our financial performances, which, in turn, may affect the value of your investment.

Members of Suo'ang BST's management have potential conflicts of interest with us, which may adversely affect our business and your ability for recourse.

Mr. Baowen Ren, our Chief Executive Officer, is also the Chairman of the Board of Directors of Suo'ang BST and Suo'ang New Energy. Mr. Peng Zhou, who is Suo'ang New Energy's director, is a member of our board of directors. Conflicts of interests between their respective duties to our Company and Suo'ang BST may arise. As our directors and executive officer (in the case of Mr. Ren), they have a duty of loyalty and care to us under U.S. laws when there are any potential conflicts of interests between our company and Suo'ang BST. We cannot assure you, however, that when conflicts of interest arise, each of them will act completely in our interests or that conflicts of interests will be resolved in our favor. For example, they may determine that it is in Suo'ang BST's interests to sever the contractual arrangements with Suoke Clean Energy, irrespective of the effect such action may have on us. In addition, any one of them could violate his legal duties by diverting business opportunities from us to others, thereby affecting the amount of payment Suo'ang BST is obligated to remit to us under the consulting services agreement.

Our board of directors is comprised of a majority of independent directors (including two based in the United States). These independent directors may be in a position to deter and counteract the actions of our officers or non-independent directors that are against our interests, as the independent directors do not have any position with, or interests in, our affiliate entities, and should therefore not have any conflicts of interests such as those potential conflicts of interest of our officers and directors who are also management members of our affiliated companies in the PRC. Additionally, the independent directors have fiduciary duties to act in our best interests, and failure on their part to do so may subject them to personal liabilities for breach of such duties. We cannot, however, give any assurance as to how the independent directors will act. Further, if we or the independent directors cannot resolve any conflicts of interest between us and those of our officers and directors who are management members of our affiliated companies in the PRC, we would have to rely on legal proceedings, which could result in the disruption of our business.

In the event that you believe that your rights have been infringed under the securities laws or otherwise as a result of any one of the circumstances described above, it may be difficult or impossible for you to bring an action against Suo'ang BST or our officers or directors who are members of its management, all of whom reside within China. Even

if you are successful in bringing an action, the laws of China may render you unable to enforce a judgment against the assets of Suo'ang BST and its management, all of which are located in China.

Risks Related to Doing Business in China

Adverse changes in economic and political policies of the PRC government could have a material adverse effect on the overall economic growth of China, which could adversely affect our business.

Substantially all of our business operations are conducted in China. Accordingly, our results of operations, financial condition and prospects are subject to a significant degree to economic, political and legal developments in China. China's economy differs from the economies of most developed countries in many respects, including with respect to the amount of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. While the PRC economy has experienced significant growth in the past 20 years, growth has been uneven across different regions and among various economic sectors of China. The PRC government has implemented various measures to encourage economic development and guide the allocation of resources. Some of these measures benefit the overall PRC economy, but may also have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations that are applicable to us. Since early 2004, the PRC government has implemented certain measures to control the pace of economic growth. Such measures may cause a decrease in the level of economic activity in China, which, in turn, could adversely affect our results of operations and financial condition.

If Suo'ang New Energy loses its existing preferential tax benefits, we would have to pay more taxes, which could have a material and adverse effect on our financial condition and results of operations.

Under PRC laws and regulations, an enterprise may enjoy preferential tax benefits if it is registered in a high-tech zone and also qualifies as "new or high-technology enterprise". As a certified "new or high-technology enterprise" located in a high-technology zone in X'ian, Suo'ang New Energy enjoyed a two-year exemption from enterprise income tax that ended in 2008, and will continue to enjoy a 50% reduction of its enterprise income tax for the next three years. If Suo'ang New Energy is unable to qualify for additional preferential tax treatments at the end of such period, we would have to pay more taxes, which could have a material and adverse effect on our financial condition and results of operations.

Suo'ang BST is subject to restrictions on making payments to us.

We derive revenue on payments from Suo'ang BST under its contractual arrangements with Suoke Clean Energy. The Chinese government also imposes controls on the conversion of RMB into foreign currencies and the remittance of currencies out of China. We may experience difficulties in completing the administrative procedures necessary to obtain and remit foreign currency. See "Government control of currency conversion may affect the value of your investment." Furthermore, if Suo'ang BST incurs debt on its own in the future, the instruments governing the debt may restrict its ability to make payments. If we are unable to receive all of the revenues from Suo'ang BST's operations through the contractual arrangements, this may severely and detrimentally affect our financial performances.

Uncertainties with respect to the PRC legal system could adversely affect us.

Our operations in China are governed by PRC laws and regulations. We are generally subject to laws and regulations in China. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value.

However, China has not developed a fully integrated legal system and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. In particular, because these laws and regulations are relatively new, and because of the limited volume of published decisions and their nonbinding nature, the interpretation and enforcement of these laws and regulations involve uncertainties. In addition, the PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until some time after the violation. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing original actions in China based on United States or other foreign laws against us and our management.

All of the assets of Suo'ang New Energy and Suo'ang BST are located in, and all of our other senior executive officers reside within, China. As a result, it may not be possible to effect service of process within the United States or elsewhere outside China upon our senior executive officers and directors not residing in the United States, including with respect to matters arising under U.S. federal securities laws or applicable state securities laws. Moreover, our Chinese counsel has advised us that China does not have treaties with the United States or many other countries providing for the reciprocal recognition and enforcement of judgment of courts. As a result, our public shareholders may have substantial difficulty in protecting their interests through actions against our management or directors than would shareholders of a corporation with assets and management members located in the United States.

Governmental control of currency conversion may affect the value of your investment.

The PRC government imposes controls on the convertibility of RMB into foreign currencies and, in certain cases, the remittance of currency out of China. We receive substantially all of our revenues in RMB. Under our current structure, our income is primarily derived from payments from Suo'ang BST. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries and our affiliated entity to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency denominated obligations. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade-related transactions, can be made in foreign currencies without prior approval from the PRC State Administration of Foreign Exchange by complying with certain procedural requirements. However, approval from appropriate government authorities is required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of bank loans denominated in foreign currencies. The PRC government may also, at its discretion, restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay dividends in foreign currencies to our shareholders.

Fluctuation in the value of RMB may have a material adverse effect on your investment.

The value of RMB against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in political and economic conditions. Our revenues and costs are mostly denominated in RMB, while a significant portion of our financial assets are denominated in U.S. dollars. We rely entirely on fees paid to us by Suo'ang BST. Any significant fluctuation in value of RMB may materially and adversely affect our cash flows, revenues, earnings and financial position, and the value of, and any dividends payable on, our stock in U.S. dollars. For example, an appreciation of RMB against the U.S. dollar would make any new RMB denominated investments or expenditures more costly to us, to the extent that we need to convert U.S. dollars into RMB for such purposes.

We face risks related to health epidemics and other outbreaks.

Our business could be adversely affected by the effects of SARS or another epidemic or outbreak. China reported a number of cases of SARS in April 2004. Any prolonged recurrence of SARS or other adverse public health developments in China may have a material adverse effect on our business operations. For instance, health or other government regulations adopted in response may require temporary closure of our production facilities or of our offices. Such closures would severely disrupt our business operations and adversely affect our results of operations. We have not adopted any written preventive measures or contingency plans to combat any future outbreak of SARS or any other epidemic.

Risks Related to an Investment in Our Securities

The full conversion of certain outstanding convertible notes and the full exercise of certain outstanding warrants could result in the substantial dilution of the company in terms of a particular percentage ownership in the company as well as the book value of the common shares. The sale of a large amount of common shares received upon conversion of the notes and exercise of the warrants on the public market, or the perception that such sales could occur, could substantially depress the prevailing market prices for our shares.

There are over 6 millions warrants outstanding from the financing that closed in September 2008. Additionally, the convertible notes that we issued in July 2009 may currently be converted into approximately 61 million shares of common stock, and there are also over 30 million warrants that we issued in connection with the convertible notes. In the event of conversion or exercise of these securities, as their conversion and exercise prices are less than the then

current market price for our common shares, a stockholder will suffer substantial dilution of his, her or its investment in terms of the percentage ownership in us as well as the book value of the common shares held.

To date, we have not paid any cash dividends and no cash dividends are expected to be paid in the foreseeable future.

We do not anticipate paying cash dividends on our common stock in the foreseeable future and we may not have sufficient funds legally available to pay dividends. Even if the funds are legally available for distribution, we may nevertheless decide not to pay any dividends. We intend to retain all earnings for our operations.

The application of the “penny stock” rules could adversely affect the market price of our common stock and increase your transaction costs to sell those shares.

As long as the trading price of our common shares is below \$5 per share, the open-market trading of our common shares will be subject to the “penny stock” rules. The “penny stock” rules impose additional sales practice requirements on broker-dealers who sell securities to persons other than established customers and accredited investors (generally those with assets in excess of \$1,000,000 or annual income exceeding \$200,000 or \$300,000 together with their spouse). For transactions covered by these rules, the broker-dealer must make a special suitability determination for the purchase of securities and have received the purchaser’s written consent to the transaction before the purchase. Additionally, for any transaction involving a penny stock, unless exempt, the broker-dealer must deliver, before the transaction, a disclosure schedule prescribed by the Securities and Exchange Commission relating to the penny stock market. The broker-dealer also must disclose the commissions payable to both the broker-dealer and the registered representative and current quotations for the securities. Finally, monthly statements must be sent disclosing recent price information on the limited market in penny stocks. These additional burdens imposed on broker-dealers may restrict the ability or decrease the willingness of broker-dealers to sell our common shares, and may result in decreased liquidity for our common shares and increased transaction costs for sales and purchases of our common shares as compared to other securities.

Our common shares are thinly traded and, you may be unable to sell at or near ask prices or at all if you need to sell your shares to raise money or otherwise desire to liquidate your shares.

The Company cannot predict the extent to which an active public market for its common stock will develop or be sustained. However, the Company does not rule out the possibility of applying for listing on the Nasdaq National Market or other exchanges.

Our common shares have historically been sporadically or "thinly-traded" on the "Over-the-Counter Bulletin Board", meaning that the number of persons interested in purchasing our common shares at or near bid prices at any given time may be relatively small or non-existent. This situation is attributable to a number of factors, including the fact that we are a small company which is relatively unknown to stock analysts, stock brokers, institutional investors and others in the investment community that generate or influence sales volume, and that even if we came to the attention of such persons, they tend to be risk-averse and would be reluctant to follow an unproven company such as ours or purchase or recommend the purchase of our shares until such time as we became more seasoned and viable. As a consequence, there may be periods of several days or more when trading activity in our shares is minimal or non-existent, as compared to a seasoned issuer which has a large and steady volume of trading activity that will generally support continuous sales without an adverse effect on share price. We cannot give you any assurance that a broader or more active public trading market for our common stock will develop or be sustained, or that current trading levels will be sustained.

The market price for our common stock is particularly volatile given our status as a relatively small company with a small and thinly traded "float" and lack of current revenues that could lead to wide fluctuations in our share price. The price at which you purchase our common stock may not be indicative of the price that will prevail in the trading market. You may be unable to sell your common stock at or above your purchase price if at all, which may result in substantial losses to you.

The market for our common shares is characterized by significant price volatility when compared to seasoned issuers, and we expect that our share price will continue to be more volatile than a seasoned issuer for the indefinite future. The volatility in our share price is attributable to a number of factors. First, as noted above, our common shares are sporadically and/or thinly traded. As a consequence of this lack of liquidity, the trading of relatively small quantities of shares by our shareholders may disproportionately influence the price of those shares in either direction. The price for our shares could, for example, decline precipitously in the event that a large number of our common shares are sold on the market without commensurate demand, as compared to a seasoned issuer which could better absorb those sales without adverse impact on its share price. Secondly, we are a speculative or "risky" investment due to our lack of revenues or profits to date and uncertainty of future market acceptance for our current and potential products. As a consequence of this enhanced risk, more risk-averse investors may, under the fear of losing all or most of their investment in the event of negative news or lack of progress, be more inclined to sell their shares on the market more quickly and at greater discounts than would be the case with the stock of a seasoned issuer. The following factors may add to the volatility in the price of our common shares: actual or anticipated variations in our quarterly or annual operating results; adverse outcomes; the termination of our contractual agreements with Suo'ang BST; and additions or departures of our key personnel, as well as other items discussed under this "Risk Factors" section, as well as elsewhere in this annual report.

Many of these factors are beyond our control and may decrease the market price of our common shares, regardless of our operating performance. We cannot make any predictions or projections as to what the prevailing market price for our common shares will be at any time, including as to whether our common shares will sustain their current market prices, or as to what effect that the sale of shares or the availability of common shares for sale at any time will have on the prevailing market price. However, the Company does not rule out the possibility of applying for listing on the Nasdaq National Market or other exchanges.

Shareholders should be aware that, according to SEC Release No. 34-29093, the market for penny stocks has suffered in recent years from patterns of fraud and abuse. Such patterns include (1) control of the market for the security by one or a few broker-dealers that are often related to the promoter or issuer; (2) manipulation of prices through prearranged matching of purchases and sales and false and misleading press releases; (3) boiler room practices involving high-pressure sales tactics and unrealistic price projections by inexperienced sales persons; (4) excessive and undisclosed bid-ask differential and markups by selling broker-dealers; and (5) the wholesale dumping of the same securities by promoters and broker-dealers after prices have been manipulated to a desired level, along with the resulting inevitable collapse of those prices and with consequent investor losses. Our management is aware of the abuses that have occurred historically in the penny stock market. Although we do not expect to be in a position to dictate the behavior of the market or of broker-dealers who participate in the market, management will strive within the confines of practical limitations to prevent the described patterns from being established with respect to our securities. The occurrence of these patterns or practices could increase the volatility of our share price.

Volatility in our common share price may subject us to securities litigation.

The market for our common stock is characterized by significant price volatility when compared to seasoned issuers, and we expect that our share price will continue to be more volatile than a seasoned issuer for the indefinite future. In the past, plaintiffs have often initiated securities class action litigation against a company following periods of volatility in the market price of its securities. We may, in the future, be the target of similar litigation. Securities litigation could result in substantial costs and liabilities and could divert management's attention and resources.

Our corporate actions are substantially controlled by our principal shareholders and affiliated entities.

As of October 28, 2009, our management and their affiliated entities own approximately 35% of our outstanding common shares, representing approximately 35% of our voting power. These stockholders, acting individually or as a group, could exert substantial influence over matters such as electing directors and approving mergers or other business combination transactions. In addition, because of the percentage of ownership and voting concentration in these principal stockholders and their affiliated entities, elections of our board of directors will generally be within the control of these stockholders and their affiliated entities. While all of our stockholders are entitled to vote on matters submitted to our stockholders for approval, the concentration of shares and voting control presently lies with these principal stockholders and their affiliated entities. As such, it would be difficult for stockholders to propose and have approved proposals not supported by management. There can be no assurances that matters voted upon by our officers and directors in their capacity as stockholders will be viewed favorably by all stockholders of the company.

The elimination of monetary liability against our directors, officers and employees under Nevada law and the existence of indemnification rights to our directors, officers and employees may result in substantial expenditures by our company and may discourage lawsuits against our directors, officers and employees.

Our articles of incorporation contains a provision that eliminates the liability of our directors for monetary damages to our company and shareholders to the extent allowed under Nevada law and we are prepared to give such indemnification to our directors and officers to the extent provided by Nevada law. We also have contractual indemnification obligations under our agreements with some of our directors. The foregoing indemnification obligations could result in our company incurring substantial expenditures to cover the cost of settlement or damage awards against directors and officers, which we may be unable to recoup. These provisions and resultant costs may also discourage our company from bringing a lawsuit against directors and officers for breaches of their fiduciary duties, and may similarly discourage the filing of derivative litigation by our shareholders against our directors and officers even though such actions, if successful, might otherwise benefit our company and shareholders.

Legislative actions, higher insurance costs and potential new accounting pronouncements may impact our future financial position and results of operations.

There have been regulatory changes, including the Sarbanes-Oxley Act of 2002, and there may potentially be new accounting pronouncements or additional regulatory rulings that will have an impact on our future financial position and results of operations. The Sarbanes-Oxley Act of 2002 and other similar rule changes are likely to increase general and administrative costs and expenses. Additionally, while we currently do not maintain any insurance policies, we are contractually obligated to obtain coverage for directors' and officers insurance. When we do so, we expect that premiums for such insurance policies may be considerable in light of the high claims rates in recent years. Additionally, there could be changes in certain accounting rules. These and other potential changes could materially increase the expenses we report under generally accepted accounting principles, and adversely affect our operating results.

Past company activities prior to the reverse merger may lead to future liability for the Company.

Prior to the closing of the Exchange Agreement with Hangson on October 20, 2006, we were engaged in businesses unrelated to our current operations. Although certain prior Company shareholders have provided certain indemnifications against any loss, liability, claim, damage or expense arising out of or based on any breach of or inaccuracy in any of their representations and warranties made in connection with the Exchange Agreement, any liabilities relating to such prior business against which we are not completely indemnified may have a material adverse effect on the Company.

The market price for our stock may be volatile.

The market price for our stock may be volatile and subject to wide fluctuations in response to factors including the following:

- actual or anticipated fluctuations in our quarterly operating results;
- changes in financial estimates by securities research analysts;
- conditions in alternative energy and coal-based product markets;
- changes in the economic performance or market valuations of other alternative energy and coal-based products companies;
- announcements by us or our competitors of new products, acquisitions, strategic partnerships, joint ventures or capital commitments;
 - addition or departure of key personnel;
 - intellectual property litigation; and
- general economic or political conditions in China.

In addition, the securities market has from time to time experienced significant price and volume fluctuations that are not related to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of our stock.

We may need additional capital, and the sale of additional shares or other equity securities could result in additional dilution to our shareholders.

We believe that our current cash and cash equivalents, anticipated cash flow from operations will be sufficient to meet our anticipated cash needs for the near future. We may, however, require additional cash resources due to changed business conditions or other future developments, including any investments or acquisitions we may decide to pursue. If our resources are insufficient to satisfy our cash requirements, we may seek to sell equity or debt securities or obtain a credit facility. The sale of equity securities could result in dilution to our shareholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations. We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all.

Shares eligible for future sale may adversely affect the market.

From time to time, certain of our stockholders may be eligible to sell all or some of their shares of common stock by means of ordinary brokerage transactions in the open market pursuant to Rule 144, promulgated under the Securities Act, subject to certain limitations. In general, pursuant to amended Rule 144, non-affiliate stockholders may sell freely after six months subject only to the current public information requirement (which disappears after one year). Affiliates may sell after six months subject to the Rule 144 volume, manner of sale (for equity securities), current public information and notice requirements. Of the approximately 101 million shares of our common stock outstanding as of August 13, 2009, approximately 14 million shares were freely tradable without restriction, as of August 13, 2009. Any substantial sale of our common stock pursuant to Rule 144 or pursuant to any resale prospectus may have a material adverse effect on the market price of our common stock.

If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud.

We are subject to reporting obligations under the U.S. securities laws. The SEC, as required by Section 404 of the Sarbanes-Oxley Act of 2002, adopted rules requiring every public company to include a management report on such company's internal controls over financial reporting in its annual report, which contains management's assessment of the effectiveness of our internal controls over financial reporting. In addition, beginning with our annual report for fiscal 2009, an independent registered public accounting firm must attest to and report on management's assessment of the effectiveness of our internal controls over financial reporting. In our annual report on Form 10-K for the year ended December 31, 2007, we reported certain material weaknesses involving control activities, specifically (1) accounting and finance personnel weaknesses in that the current staff in the accounting department is relatively inexperienced and requires substantial training; (2) lack of internal audit function in that we lack qualified resources to perform the internal audit functions properly, and the scope and effectiveness of internal audit function are yet been fully developed; and (3) lack of internal audit system in that we do not have an internal audit department to prevent and detect control lapses and errors in the accounting of certain key areas in accordance with the appropriate costing method used by us.

In light of the foregoing, our management began undertaking steps to address these issues, including the engagement of a chief financial officer whom management believes has the requisite financial reporting experience, skills and knowledge to complement our existing personnel. Additionally, four independent directors now sit on our board of directors, including a member who is appropriately credentialed as a financial expert. The independent directors have been tasked to establish certain internal audit functions within our company, and we have also established audit and compensation committees comprising entirely of independent directors. We have also hired additional accounting and operational personnel. However, there is no assurance that additional remedial measures will not be necessary, or that after the remediation our management will be able to conclude that our internal controls over our financial reporting are effective. Moreover, even if our management concludes that our internal controls over financial reporting are effective, our independent registered public accounting firm may still decline to attest to our management's assessment or may issue a report that is qualified if it is not satisfied with our controls or the level at which our controls are documented, designed, operated or reviewed, or if it interprets the relevant requirements differently from us.

Our reporting obligations as a public company will place a significant strain on our management, operational and financial resources and systems for the foreseeable future. Effective internal controls, particularly those related to revenue recognition, are necessary for us to produce reliable financial reports and are important to help prevent fraud. As a result, our failure to achieve and maintain effective internal controls over financial reporting could result in the loss of investor confidence in the reliability of our financial statements, which in turn could harm our business and negatively impact the trading price of our stock. Furthermore, we anticipate that we will incur considerable costs and use significant management time and other resources in an effort to comply with Section 404 and other requirements of the Sarbanes-Oxley Act.

We will incur increased costs as a result of being a public company.

As a public company, we will incur significant legal, accounting and other expenses that we did not incur as a private company. In addition, the Sarbanes-Oxley Act, as well as new rules subsequently implemented by SEC, has required changes in corporate governance practices of public companies. We expect these new rules and regulations to increase our legal, accounting and financial compliance costs and to make certain corporate activities more time-consuming and costly. In addition, we will incur additional costs associated with our public company reporting requirements. We are currently evaluating and monitoring developments with respect to these new rules, and we cannot predict or estimate the amount of additional costs we may incur or the timing of such costs.

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

As reported in our current reports on Form 8-K filed with the Securities and Exchange Commission on July 8, 2009 and July 22, 2009, we sold approximately \$11.6 million in aggregate principal amount of 10% senior secured convertible notes and warrants to purchase up to approximately 30.5 million shares of common stock to several institutional and/or accredited investors, in a private placement pursuant to Regulation D promulgated under the Securities Act of 1933, as amended.

Item 3. Defaults upon Senior Securities.

None

Item 4. Submission of Matters to a Vote of Securities Holders.

On September 21, 2009, we held an annual meeting of our shareholders (the "Annual Meeting") for the following three purposes:

Re-election of Directors

The first purpose of the Annual Meeting was to re-elect six directors to serve until the 2010 annual meeting of shareholders. Each of the six director-nominees was re-elected by casting of the following votes:

| Name of Nominee | FOR | AGAINST | ABSTENTION |
|-----------------------|------------|---------|------------|
| Baowen Ren | 60,157,513 | 205 | 1,500 |
| Wenjie Zhang | 60,157,688 | 30 | 1,500 |
| Peng Zhou | 60,157,513 | 205 | 1,500 |
| Bennet P. Tchaikovsky | 60,156,513 | 205 | 1,500 |
| Zidong Cao | 60,157,513 | 205 | 1,500 |
| Yong Li | 60,157,513 | 205 | 1,500 |

Ratification of Auditors

The second purpose of the Annual Meeting was to ratify the appointment of Weinberg & Company P.A. as our independent registered public accounting firm for the 2009 fiscal year, which appointment was ratified by casting of the following votes:

| FOR | AGAINST | ABSTENTION |
|------------|---------|------------|
| 60,158,013 | 30 | 1,175 |

Increase of Number of Authorized Shares of Common Stock

The third purpose of the Annual Meeting was to approve an amendment of our Articles of Incorporation to increase the total number of authorized shares of common stock from 200,000,000 shares to 300,000,000 shares, which was approved by casting of the following votes:

| FOR | AGAINST | ABSTENTION |
|------------|---------|------------|
| 59,874,660 | 279,322 | 5,235 |

Item 5. Other Information.

None

Item 6. Exhibits.

EXHIBIT INDEX

| Exhibit Number | Description |
|----------------|--|
| 2.1 | Share Exchange Agreement by and between Endo Networks, Inc. (“Endo”), the Majority Shareholders of Endo, Hangson Ltd. (“Hangson”) and the Shareholders of Hangson dated October 18, 2006 (1) |
| 3.1 | Articles of Incorporation of Endo Networks, Inc., a Nevada corporation, as amended. * |
| 3.2 | Bylaws of Endo (3) |
| 3.3 | Text of Amendment to the Bylaws (4) |
| 4.1 | Form of 18% Secured Convertible Debenture (8) |
| 4.2 | Form of Warrant issued in connection with the 18% Secured Convertible Debenture (8) |
| 4.3 | Form of Warrant issued to Ancora Securities, Inc. (8) |
| 4.4 | Non-statutory Stock Option Agreement by and between Registrant and Hon Wan Chan dated December 15, 2008 (10) |
| 4.5 | Form of 10% Senior Secured Convertible Note (13) |
| 4.6 | Form of Warrant issued in connection with the 10% Senior Secured Convertible Note (13) |
| 10.1 | Asset and Share Purchase Agreement by and between Registrant and Peter B. Day (for Endo Canada) (2) |
| 10.2 | Securities Purchase Agreement by and among Registrant, Peng Zhou and Shaanxi Suo’ang New Energy Enterprise Co., Ltd. dated June 30, 2008 (7) |
| 10.3 | Securities Purchase Agreement by and among Registrant and two institutional and accredited investors dated September 16, 2008 (8) |
| 10.4 | Securities Purchase Agreement by and among Registrant and four institutional and accredited investors dated September 19, 2008 (9) |
| 10.5 | Employment Agreement by and between Registrant and Hon Wan Chan dated December 15, 2008 (10) |
| 10.6 | Form of Director Offer Letter with Bennet P. Tchaikovsky (10) |
| 10.7 | Form of Indemnity Agreement by and between Registrant and Bennet P. Tchaikovsky (10) |
| 10.8 | Form of Exchange and Amendment Agreement by and among Registrant and six institutional and accredited investors (11) |
| 10.9 | |

Edgar Filing: Sino Clean Energy Inc - Form 10-Q

Securities Purchase Agreement by and among Registrant and several institutional and accredited investors dated July 2009 (13)

- 10.10 Form of Director Offer Letter with Yong Li (14)
- 31.1 Section 302 Certification by the Corporation's Chief Executive Officer *
- 31.2 Section 302 Certification by the Corporation's Chief Financial Officer *
- 32.1 Section 906 Certification by the Corporation's Chief Executive Officer *
- 32.2 Section 906 Certification by the Corporation's Chief Financial Officer *

39

Edgar Filing: Sino Clean Energy Inc - Form 10-Q

- 99.1 Consulting Services Agreement by and between Hangson and Shaanxi Suo'ang Biological Science & Technology Co., Ltd. ("Suo'ang BST") dated August 18, 2006 (3)
- 99.2 Equity Pledge Agreement by and among Hangson, Suo'ang BST and Suo'ang BST's Majority Shareholders dated August 18, 2006 (3)
- 99.3 Operating Agreement by and among Hangson, Suo'ang BST and Suo'ang BST's Majority Shareholders dated August 18, 2006 (3)
- 99.4 Proxy Agreement by and between Hangson and Suo'ang BST's Majority Shareholders dated August 18, 2006 (3)
- 99.5 Option Agreement between Hangson and Suo'ang BST's Majority Shareholders dated August 18, 2006 (3)
- 99.6 Agreement by and between Suo'ang BST and Hanzhong Si Xiong Ke Chuang Business Co. Ltd. ("Hangzhong") (3)
- 99.7 Supplementary Agreement by and between Suo'ang BST and Hanzhong dated March 25, 2007 (5)
- 99.8 Contract for Technology Transfer between Suo'ang BST and HanZhongWeiDa Commercial Company Limited ("HangZhongWeiDa") dated December 25, 2006 (5)
- 99.9 Contract for Technology Transfer between Suo'ang BST and HanZhongWeiDa dated January 10, 2007 (5)
- 99.10 Amendment to Consulting Services Agreement by and between Hangson and Shaanxi Suo'ang Biological Science & Technology Co., Ltd. ("Suo'ang BST") dated June 30, 2009 (12)
- 99.11 Amendment to Equity Pledge Agreement by and among Hangson, Suo'ang BST and Suo'ang BST's Majority Shareholders dated June 30, 2009 (12)
- 99.12 Agreement to Transfer of Operating Agreement among Hangson, Suoke SCE, Suo'ang BST, Suo'ang BST's Majority Shareholders and Sino Clean dated June 30, 2009 (12)
- 99.13 Designation Agreement among Hangson, Suoke SCE, Suo'ang BST, Suo'ang BST's Majority Shareholders and Sino Clean dated June 30, 2009 (12)
- 99.14 Agreement to Transfer of Option Agreement among Hangson, Suoke SCE, Suo'ang BST, Suo'ang BST's Majority Shareholders and Sino Clean dated June 30, 2009 (12)

* Filed herewith

- (1) Filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on October 18, 2006 and incorporated herein by reference.
- (2) Filed as Exhibit A of Registrant's Schedule 14A filed with the SEC on August 8, 2006 and incorporated herein by reference.
- (3) Filed as Exhibits to the Registrant's Current Report on Form 8-K filed with the SEC on October 26, 2006 and incorporated herein by reference.

- (4) Filed as an Exhibit to the Registrant's Current Report on Form 8-K filed with the SEC on November 17, 2006 and incorporated herein by reference.
- (5) Filed as Exhibits to the Registrant's Annual Report on Form 10-KSB filed with the SEC on May 3, 2007 and incorporated herein by reference.
- (6) Filed as an Exhibit to the Registrant's Current Report on Form 8-K filed with the SEC on August 17, 2007 and incorporated herein by reference.

- (7) Filed as an Exhibit to the Registrant's Current Report on Form 8-K filed with the SEC on July 7, 2008 and incorporated herein by reference.
- (8) Filed as an Exhibit to the Registrant's Current Report on Form 8-K filed with the SEC on September 17, 2008 and incorporated herein by reference.
- (9) Filed as an Exhibit to the Registrant's Current Report on Form 8-K filed with the SEC on September 22, 2008 and incorporated herein by reference.
- (10) Filed as an Exhibit to the Registrant's Current Report on Form 8-K filed with the SEC on December 16, 2008 and incorporated herein by reference.
- (11) Filed as an Exhibit to the Registrant's Current Report on Form 8-K filed with the SEC on March 30, 2009 and incorporated herein by reference.
- (12) Filed as an Exhibit to the Registrant's Current Report on Form 8-K filed with the SEC on July 7, 2009 and incorporated herein by reference.
- (13) Filed as an Exhibit to the Registrant's Current Report on Form 8-K filed with the SEC on July 8, 2009 and incorporated herein by reference.
- (14) Filed as an Exhibit to the Registrant's Current Report on Form 8-K filed with the SEC on August 4, 2009 and incorporated herein by reference.

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.

SINO CLEAN ENERGY INC.
(Registrant)

Date: November 16, 2009

By: /s/ Baowen Ren
Baowen Ren
Chief Executive Officer