



TELECONFERENCE BRIEFING

BY CEO RIGGS ECKELBERRY

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Riggs: Welcome everyone to the last day of January and our special monthly report. As you know, last week's scheduled report was delayed because Bill and I were at a meeting with an acquisition, which was very promising and in fact, that is continuing to move along as expected. I'll quickly cover the subject of acquisitions and then move on to other interesting topics.

As I explained a couple of weeks ago, on MoneyTV, it was the 17th I think, and I expressed that we are at the term sheets stage that we have agreement on all the key points and that we appear to have financing in place and so that a deal is very doable. At the moment, we are frankly really dealing with issues that are much more the basics such as taxation and so forth, tax considerations. It's down to some nitty-gritty, but last Thursday, we did in fact reach a principal agreement on the major terms of the agreement and things are moving forward. Again, we will not be able to disclose anything until we have a definitive agreement, and that means that of course, all parties are ready to execute. Then, we go into due diligence and so forth.

Please do not consider this to be actionable. The acquisition happens or it gets delayed or it falls apart or whatever happens, so I don't want anybody to consider this a done deal. There's all these logic trees that we go through and that's the nature of the beast, but it's going well. What we like about this company is that they've already been working with both Dan Early over at Modular Water and Marc Stevens over at Progressive. For a couple years now, there's been informal collaborations between the parties, and so they all know each other quite well. It's very clear that this company's network, which is one



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of the strengths of the company, it has an international network, that this network will be a very, very excellent way to expand the businesses with Modular Water and Progressive, so it's very, very synergistic and also, they have a very profitable company.

The key to profitability in water systems, it's now very clear, is not technology but product. When water companies do things custom, they may seem profitable but they are actually not so. The money is in standardizing the product offerings and replicating those again and again and again and again. This particular company that we're meeting with last Thursday, they have a particular pump of which they have sold 7,000, and only six of them have come in under warranty for warranty repair, so you have this situation all your components are well tested. They are repeatedly used in identical situations and develop a tremendous reliability. Like a car, for example, you can make a car by hand, and you can say, "Well, I'm going to charge you quarter million dollars for this car." You're not going to make as much money as if you sold a few thousand units of that car at \$25,000, and so that's the difference.

The water industry tends to build water systems like people build houses. Build the foundation and then they pour concrete and rebar, reinforcing bar and so forth. It costs money and it takes a lot of regulation and so forth like that, whereas if you can just have a product that you push out then it is what it is. There it is. Boom. Then, it's kind of like delivering a mobile home to someone or an RV, recreational vehicle, versus building a house's foundation. That's a big difference.

Modular Water has this strength. Progressive Water tends to make things custom and that's why Modular Water has much better margins than Progressive, but the good thing about Progressive is it's got a skills base. There's 25 people there who, because they're so used to doing all these custom things, are very, very skilled at executing things. They're a great base or operational support for Modular Water.

Actually, what's going on right now, is Progressive's business has phenomenally taken off in the New Year and I relayed in my last CEO update where we went up against some big, big players and made the cut and had a huge purchase order come through. I'm not going to say by what multiple we're doing better than normal but we're doing significantly better in January versus the run rate of last year. Last year, the numbers are not official yet, but PWP did substantially better than the year before, and that's going to come out once we verify all the numbers. I expect those numbers to come in significantly over 2017, which is wonderful.

That covers the acquisitions. It also covers the benefit of a standardized product line, and we're taking various activities and reducing them to specific products. A lot of work being done in



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marketing right now taking different kinds of, this is a pump station, this is a wastewater treatment system, this is a containerized building. There's various different types of application. This is a brewery, and standardizing them, giving them product fliers, the usual thing that you expect from product lines, and in fact, the brewery program has generated some good strongly interested brewery operators, and I think we'll do very well with that program.

Having said that, it's kind of ironic because I realized we don't need to generate a whole lot of leads of a particular area because frankly, Dan Early right now is overwhelmed with business. Our biggest challenge, and we've been working on this right now, is how to rush more technical execution resources to him so that he doesn't have to get into the weeds and he can keep doing deals. He's got lots and lots and lots of stacked up deal flow, so if there's any barrier, it's really on the technical execution, which he has been sort of the guru. When you have a guru, we get a lot of people who want more from him. At the same time, he or she has to deliver on what's promised. Right now, we're focusing on that delivery being delegated out so he can keep being the evangelist.

Now, another major, major thing that's going on is that now that Bill Charneski went out and got all these [acquisition] targets, a lot of herding cats as I've said before, to get a bunch of companies to buy. We now have all these targets defined, and due diligence done, and packaged and right now we're just doing one and then the other, and then the other, and they get easier and easier as presumably the stock price improves and so on.

He's got some free time and so I've put him onto a very, very important project. The water industry uses sales reps to an extraordinary level. Now a sales rep is an organization that has solutions. Let's say there's one in western Pennsylvania that has very specific specialization, for example, that Modular Water works with and that sales rep organization is basically an intermediary between the end users and their engineers, and the vendors.

So let's say you're State Farm and you want to build a new office complex, and need the water treatment for it. You go to a sales rep organization that handles that, and they will then bring one, two, or three potential players. Or even just one depending how specialized it is. So, there's about, gosh, there's about close to fifty rep companies in the US. We have about twenty percent of them existing, between Modular Water about ten percent and Progressive about ten percent. Not overlapping, which is great.

So for example, literally one of the rep organizations for MWS [Modular Water Systems] just generated a purchase order a couple of days ago for Progressive based on Bill Charneski introducing them to Progressive Water where they were already working with Modular Water Systems. In addition, a very large percentage, he's gotten a lot of these rep companies forty odd



companies, a large number of them are in talks with us to represent us.

Now why is this? The main reason is that Modular Water Systems is a very exciting product line and it's highly differentiated. Why? A. It's cheaper. Right? It's five to fifteen percent cheaper and still profitable for us. Because, again, it's standardized and uses highly standard components. Number two, it lasts much longer so there's a durability feature, and number three is excellent engineering. Dan has this software that auto engineers all these things, so the consulting engineers love it. So it's very attractive and so we're getting a lot of open doors with the reps.

Now, any sales rep organization is going to generate, I don't know, call it a million dollars a year for a company. I'm just throwing a number out, it's completely arbitrary. But it gives you an idea of the value of signing up rep organizations because, literally, it's like acquiring companies. But you're acquiring what's called Channel. And I'm a big Channel guy. I did a lot of channel work when I was in high tech and channel's good because you have more and more people doing your evangelism than you. It's all very well to sell directly but there's a limit to it. So reps are a way, the simplest possible way, to have channel in the water industry. And that is an initiative that is already generating new business right now. It's already paid for itself. And that's because Bill Charneski has become so conversant with the industry in the four years, three or four years, that he's been out there buying companies. And he just knows how the water industry works, inside out.

I'm looking at a map right now showing our coverage, and we really have good coverage, just missing some very small states up in the Dakota-ish states. But other than that, I see that there's coverage of all of the states that matter, including a lot of action in Florida, Texas, the whole southern sun belt, California, northwest, northeast. So, we're getting excellent coverage and we're also getting government and overseas coverage from a particular rep as well. Actually, two different rep organizations cover overseas and government. So that's a wonderful aspect.

Now, there's something very interesting that's going on in start-ups. And that is that increasingly, I'm going to read from a little of [this report](#) by Angel List. Angel List is where you can find out what deals are being done with venture capitalists and so forth like that. It talks about the fight that's going on in New York with the regulators and of course the city council in New York is trying to favor the taxi limousine commission and not Uber and so forth. But in doing so they've tended to, in an unintended way, they've tended to favor Uber because it has all the market share. It just shows that regulators can't regulate things easily with technology companies because technology companies are this brand new thing.

Now this particular article says, "For years, investors have shared a standard piece of advice for founders looking to build in regulated markets: **Don't**. Don't take on the



regulatory risk; don't put your startup at the mercy of political whims; don't try to grow fast in a market where regulators will require you move slowly.

Now that attitude is starting to change.

Steven Blank, who is an entrepreneur, and a couple of other panelists in a talk at Columbia University, discussed how some of the most exciting unicorns - a unicorn is a company that's worth a billion dollars or more - of the last ten years have been launched in heavily regulated markets. And why they think that trend will only accelerate. And Steve said, "We've come through twenty years of the internet exploding in the economy where you were able to pick off lightly regulated slices of the economy, like media and retail."

This is actually Evan Burfield that said that, the author of [Regulatory Hacking: \[A Playbook For Startups\]](#) and he says, "But you keep going if you're an entrepreneur. You keep looking for the next puzzle to solve and then you're getting into healthcare, transportation, energy, defense," and Riggs would add to that, "Water."

Now the reason I say this is on the list is that water is a highly regulated industry, but it is vulnerable in the sense that it's become antiquated. And so there's an end run around the regulation which is localized water treatment. Treatment at the location where the water is being used. And if you treat it where it's being used then you can recycle it. That is a huge, huge, huge factor and that is what we are specializing in. We have really set our cap to go after the phenomenon of on-site, or on-premises water treatment versus the big central municipal systems, which are so regulated.

So it says if I was going to do something with the taxi business I'd invent a better taxi. Well, in fact, the deal wasn't a better taxi. The deal was to just bypass it all together as Uber did, and later Lyft.

So the thing is to find the end run. And the end run in water is clearly just doing it right there at the site, and you bypass so many issues with regulation. This validates, really, that we're in a very strong space. From where I sit, we have our Monday management meetings and we have a live forecast that we maintain, and I'm looking at this thing like, "Oh, my God, the way we're going we don't even have to acquire companies." We've literally, internally done acquisition. Modular Water was this big, big, big burden that I took on, the whole company took on, mid last year with this tremendous upside. And the amazing thing is that the upside is coming true. Modular Water is developing an



unbelievable pipeline. But then what was unexpected was that Progressive Water is taking off. So we've got Progressive water really starting to get its stride and start to move faster and faster, while at the same Modular Water is coming on the scene.

So I see a tremendous expansion of our numbers in this current year which is very, very, very bullish. Because if there's one thing I don't want to do, is to rely on the ability to acquire companies. It's so dependent on financing and on people's emotion and so on. We're absolutely continuing with the acquisitions, I think it's important. The reason is not so much, it's changing from buying revenue to acquiring synergy. You see, the company we're in very late stage talks with - and we are agreed in principle, we are there - adds a tremendous amount of value to Progressive and to Modular Water and to our technology division because it has this fabulous international network.

That's why we're still on track with acquisitions because it has this strategic value. It's no longer about buying revenue because I see in our pipeline that we can easily do as well as an acquisition or better with just the growth we have internally, which is called having your cake and eating it, too. So that's really, really good.

Now, I want to cover the business of the technology division. Which as you know has been for years now working to license technology. And many of you have invested in the company based on the strength of that electrochemistry. And two things are going on. Number one, we continue to license. Jean Louis is taking off for an international trip on the 7th of February and he is going to close some business. Very strategic for us. We are in very late stage negotiations with two national oil companies through a local licensee. And we have also excellent business going on in the in the manure treatment area. Any kind of animal factory, we have a solution that is now well proven in Spain and has now been exported into the US. And we're expecting to see some very good business from that. So oil and gas and manure are two major areas for us and the third area is in the area of handling grease and so on, won't get into the details.

While that's going on, a big stronger and more potent strategy is emerging. Why don't we be our own licensees. By that I mean, Modular Water delivers packaged solutions, what Dan Early calls engineered solutions. These are things that we say, "It's going to do, it's going to keep your your cooling tower clean because we'll just handle it. You don't have to know why. You can know the specs if you want but the truth is it will test out, it will demonstrate to do the job." If we go ahead and we use our own technology in those products, then our technology becomes part of the black box and we have less of a communications problem.



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It's been really hard dealing with the reality that the water industry is not interested in something new. They are really not. Again, like the taxi industry was never interested in an app, for example. Well, somebody did an app and guess what? It destroyed the taxi industry. So, the water industry does not want new things so then what you have to do is do the end run. The end run or the run around is to take our technology and productize it into what Modular Water does. Let's say for example, you want to make drinking water more safe. Well, we have a technology called Advanced Oxidization™ that is proven to do huge, huge, huge generation of these oxidizing chemicals. Convincing people to adopt that is very hard work, but we don't have to convince ourselves. If we find the application, we just do it. This goes back to what I learned in the dot com era, which is never market to the conservatives or the skeptics, always market to the enthusiasts. Well, we know we're enthusiasts. We're selling it to ourselves, right? That's like selling to your cousin. You got it, right? It's already a done deal.

Whereas trying to get these highly conservative water people has been really a source of frustration for us. We've got great technology. It's very effective. It's proven in many, many domains and specific domains that I can talk about but I won't. What we're going to do while we're continuing to license in fields where we know it's working. We're not going to keep hitting our heads against the wall to keep trying to convince people. We're simply going to adopt our technology in world class products of our own. That, I think is going to be very, again, the old "synergy" word comes to the fore, is we're going to be able to weave the technology into our own products. Then the case studies of those products being vastly, vastly better at particular job and including our technology, we'll make the point that this is the technology we're using. We will have revenues, we will have solutions, and even more importantly, we're doing something about the world.

I was in a meeting with a potential major licensee for south of the border. I won't say which region but it's south of U.S.A. They're very serious about doing it, this thing at the highest level to solve that country's water problems, which are huge. They said, "Riggs, what are your goals?" I said, "Well, I want to get my company onto the NASDAQ. That's what I really want to do." They went, "Okay, sounds good," and I said, "Actually, I want to make a difference with water in the world. I really do." They just, "That is why we're in it. That's what we care about and you said what we feel, too." That's really the game we're in.

At this point, it's an interesting period in our history where the revenue is starting to kick in. As you know when that happens, cash requirements rise. You, shareholders are providing us the safest, cleanest sources of funds possible that have the least toxic outcome. We know that. You guys, gals are the real pillars of the company. Your



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investing in our private placements is literally what's making it all happen. Now, the current private placement is not going to last and that's because we have something new coming on that you might or might not like. We'll see — but more importantly, this is the chance to essentially be repaid your money. You get cash interest and are granted a substantial amount of shares. This is not going to go on forever. We don't want to keep adding to our burdens here. We can do it to a certain extent, but it comes a point where we go back to raising money the old-fashioned way using stocks and warrants and so forth like that.

I strongly encourage you to balance out your portfolio by investing in something that is a debenture. Meaning that you'll get repaid, mandatory repayment of principal. That pays cash dividends, people are making eight percent cash per year. I know this because I'm pushing out the payments to everyone. Number three, there is a substantial grant of stock without any payment. Not like a warrant, where you have to pay for it. No, it's free. This is not going to last. There's no such thing as free lunch, at least for a while. Please, please, please if you can, you will help us tremendously by investing now in the company and by taking this particular vehicle because it is so advantageous for you. If you've invested in the company for a long time, this investment will anchor and help to hedge your previous investment because it can't possibly go under water because you've been given the shares, and we're committed to repaying the investment in full plus the dividends. It is what's called a win win.

Why do we do it? Because we are literally sparking revenue on this with that exact money. So, you're doing amazing, amazing things for us. Talk to Ken. The number is 323-939-6645. Ken's at extension 201. If you'd like to talk to Devin Angus, extension 116. Either one of them will connect me into the conversation at the right time. I'm happy to talk to anyone. Please, first talk to Ken or Devin to answer your preliminary questions, and I'll be happy to jump in and spend the time to really acquaint you to where we are within the limits of what I can say. Remember that I cannot favor one investor or another. I love you all. You're all, Mom is going to love her entire family, so I'm not going to be giving one party more information than the other but I can definitely discuss the company, answer your questions as long as that is understood. Then I'll be happy to do that.

I love what's happening. I love our pipeline of business. The company has never been in such an amazing position before. It's just never happened. We've never had this diversity of revenue coming in. We've never seen the revenues pop quite so much in the first month of the year. It's never happened before by multiples. I'm not saying a little bit. A lot. By revenues, I mean purchase orders, right? It takes a while to get the money,



actually but the purchase orders have popped. We've never been this close to just a very, very synergistic acquisition. We're firing all guns. Again, come on in. Your help is really, really welcome at this point so that can fund all this. We will treat you right with this amazing offer that Ken and Devin are helping me explain to people. Again, please call and that's 323-939-6645. Ken's at 201. Devin's at 116. Again, thank you very much for your time tonight. Money TV comes out tomorrow ([clip here](#)) and Bill Charneski's on that show this time. He's just an amazing guy. Take a look at him. This guy has been doing wonders for us and we're grateful for him. Thank you all and goodnight.

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